BUSINESS REPORTING AND GOVERNMENT INTERVENTION: THE CASE OF LEBANESE TELECOM SECTOR

Patrizia De Corato
PhD Candidate in Business Economics and Management
Department of Economics and Management"
University of Ferrara
Italy

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Abstract

For hundreds of years, the financial has been the *only* focus of corporate reporting. In recent times, business reporting has increasingly become an important development in the field of corporate disclosure for external stakeholders, which has attracted interest also by institutions and regulators.

Accordingly, this work aims to analyze and better understand the underlying reasons of government intervention in business reporting and non-financial performance measurements, using the Lebanese context as case study.

In Chapter 1, the thesis looks at the rationales, rules, and actions for public sector intervention in the accounting and business reporting.

Then, in Chapter 2 the study carries out an extensive review of relevant academic literature in order to locate and evaluate the findings of the present work within a theoretical framework. In this Chapter, the factors affecting the national accounting, the reporting system and their functioning are described. Government intervention in accounting and business reporting is studied under three different research approaches, i.e. the public interest theory, the institutional theory, and the political economy theory.

In Chapter 3, the Lebanese institutional context is described in order to provide an understanding of the national accounting context and the associated regulatory environment.

In Chapter 4, the thesis examines more in depth a Lebanese case of business reporting, where the Government has decided to impose mandatory ad hoc non-financial measurements and disclosures on Telecom Companies for control and incentive purposes. The primary research method is based on surveys that have been sent first to the Government (Ministry of Telecommunications), and then to the two private mobile operator companies (MIC1 and MIC2), which are managing the mobile state-owned

network through fiduciary management contracts. The research is also carried out using semi-structured interviews to, and email exchanges with, the main institutional and corporate actors. The conceptual framework applied for understanding Key Performance Indicators and their disclosure is rooted on the Concept Paper of WICI (World Intellectual Capital Initiative) Network titled "KPIs in Business Reporting" (www.wici-global.com) as well as on the WICI KPIs for Telecommunication sector. The Chapter investigates how the Lebanese government has addressed the issue of transparency and ensuring financial and non-financial reporting compliance, as well as its preferential reasons for an interventionist approach, which reflects the today's growing importance of State presence in the field of Business Reporting rather than in the more "traditional" Financial Reporting.

In Chapter 5, the research questions are reviewed, and compared and contrasted with the findings of the work. Answers, explanations, and justifications in relation to the literature review are provided. A general assessment of Lebanese government intervention in business reporting is undertaken to evaluate how successful such governmental decision and action have been on improving the performance of the Lebanese telecom sector. The Lebanese is considered to be an interesting case, because it addresses a government's call for more information on Telecom companies' "hidden" factors and wealth, which - through selected KPIs - has had the unintended consequence of bringing about and making emerge a new knowledge and pattern of visibility on corporate intangibles in a geographical region where official guidelines on IC Reporting are still absent.

There is clearly a great deal of further research work to be done in the Middle East Region, if we are to increase our understanding of the ways in which IC reporting can work in these national and organizational settings, while contributing to a better transparency and economic development of that area.

Table of Contents

Abstract ……………………………………………………………………p. 2

Table of Contents …………………………………………….................p. 4

List of Tables and Figures…………………………………………………p. 6

List of Appendices…………………………………………………………p. 7

List of Acronyms……………………………………………………………p. 8

Acknowledgements…………………………………………………………p. 11

Chapter 1 Intervention of the State in business reporting between rationales, rules, and actions……………………………………p. 12

1.1. Introduction……………………………………………..................p. 12

1.2. Accounting and Regulation: approaches and limitations……………p. 15

1.3. The rise of business reporting……………………………………...p. 25

1.3.1 The meaning of business reporting…………………………...p. 25

1.3.2 Management Report…………………………………………..p. 36

1.3.2.a. Management Report under the European Accounting Directives……………………................p. 36

1.3.2.b. Management Commentary according to the IASB………………………………………………p. 44

1.3.2.c. The Management Discussion & Analysis (MD&A) in the USA…………………………………p. 47

1.3.3. Intellectual Capital (IC) Reporting…………………………...p. 50

1.3.4. Integrated Reporting (IR)……………………………….……p. 53

1.4. Why study Lebanese accounting and business reporting?..................p. 54

1.5. Objectives, contribution, and methodology…………………………p. 56

1.6. Structure of the thesis…………………………………………...p. 60

Chapter 2 Literature review on governmental intervention in the corporate reporting arena…………………………………… p. 61

2.1. Introduction…………………………………………………………..p. 61

2.2. Accounting, reporting, and the national context…………….............p. 61

2.3. Government intervention in accounting and business reporting……p. 70

2.3.1. Theoretical background and research streams………………..p. 70

2.3.1.a. The public interest theories……………………........p. 71

2.3.1.b. The institutional theories…………………...……p. 75

2.3.1.c. The political economy theories………………..……p. 79

2.3.2. Government intervention in accounting and business reporting in the Middle East countries………………………p. 86

2.3.3. Government intervention in accounting and business reporting: policy, aims, and technical contents……………….p. 92
2.4. Conclusion…………………………………………………........p. 97

Chapter 3 Accounting and business reporting in the Lebanese context.…p. 98
3.1. Introduction……………………………………………………........p. 98
3.2. An overview of Lebanese institutional actors in the accounting domain………………………………………………………………....p. 98
3.3. The Lebanese regulatory environment……………………………......p. 108
3.4. Conclusion……………………………………………………….....p. 120

Chapter 4 The governmental intervention in the business reporting of Lebanese Telecom companies: reasons, processes, and consequences………………………………………………….p. 122
4.1. Introduction……………………………………………………....p. 122
4.2. Insights into the Telecom Sector in Lebanon: Infrastructures and Strategies……………………………………………………….…..p. 122
4.3. Observing the process of introduction by the government of KPIs and Quality of Service (QoS) Standards in Telecom Companies.…p. 132
4.4. Financial, Business Data and indicators in MIC1 and MIC2……....p. 141
4.5. A reclassification of Intangibles values of MIC1 and MIC2 in an IC perspective (WICI)………………………………………….……p. 144
4.6. Conclusion……………………………………………….……….…p. 151

Chapter 5 Discussion and conclusions…………………………….……p. 153
5.1 Discussion of Research Questions……………………………….…p. 153
5.1.1. Discussion of Research Questions #1....................................p. 153
5.1.2. Discussion of Research Questions # 2……………………….p. 158

5.2 Implications of the Study, limitations and suggestions for future Research……………………………………………………….……p. 162

Bibliography………………………………………………………….…p. 165

List of Tables and Figures

Table 1.1. The main limitations of accounting…………………………p. 18

Table 1.2. Current reporting practices versus the market value of the firm………………………………………………………p. 21

Table 1.3. The "crowded" world of non – financial information………..p. 27

Table 1.4. The history of IFRS Practice Statement Management Commentary………………………………………………..p. 29

Table 1.5. Summary of EU Accounting Directives Contents……………p. 37

Table 1.6. IC Report Composition………………………………………..p. 51

Table 1.7. Benefits and Features of IC Valorization……………………..p. 52

Table 1.8. The timeline of the research case study: Government Intervention in the accounting and business reporting of Lebanese Telecom Sector…………………………………p. 58

Table 2.1. The factors affecting and defining the peculiarities of national accounting system…………………………………...p. 62

Table 2.2. Financing Systems……………………………………………p. 68

Table 2.3. Financing Systems (Explanations)……………………………p. 68

Table 2.4. Regulation of financial reporting……………………………..p. 79

Table 2.5. The regulation procedure of accounting as a process matter...p. 81

Table 2.6. Various Lebanese literatures in Lebanon data base…………...p. 87

Table 2.7. The main policies, aims, and the technical contents for government intervention in accounting and business reporting in some countries of the Middle East region……...p. 93

Table 3.1. Lebanon Private Sector Accounting and Auditing……………p. 99

Table 3.2. Ministry of Finance's vision and mission statement…………p. 100

Table 3.3. Lebanese Accounting Regulators……………………………..p. 111

Table 3.4. Taxation in Lebanon…………………………………………..p. 116

Table 3.5. The contributions payable to the Social Security…………….p. 117

Table 3.6. The divergences between IAS, Lebanese National Standards – Lebanese GAAP, and actual practices in Lebanon………...p. 118

Table 4.1. Lebanese Ministry of Telecom Strategic Objectives………...p. 123

Table 4.2. The Lebanese telecom sector: context profile……………….p. 124
Table 4.3. The Ministry of Telecom before and after telecom Law 431 in 2002……………………………………………………..p. 126
Table 4.4. The 12 Objectives set by the MOT…………………………..p. 127
Table 4.5. KPIs used for the Lebanese Telecom Sector………………...p. 130
Table 4.6. The proposed model: telecom core competencies and key impacts on core telecom value creation / value chain model (showing the activities of a telecom company)……………..p. 134
Table 4.7. Questionnaire 2: The Human Capital Resources of the Lebanese Telecom Sector……………………………………p. 137
Table 4.8. Questionnaire 3: The Human, Structural, and Relational Capital Resources of the Lebanese Telecom sector…………p. 138
Table 4.9. Financial and Business Lebanese Context…………………...p. 143
Table 4.10. Intangible values of MIC1 and MIC2………………………...p. 145

List of Appendices

Appendices to Chapter 3
Appendix A Independent auditor's report ………………………...p. 178
Appendix B Statement of Financial Position or Balance Sheet….p. 180
Appendix C Statement of Activities or Income Statement……….p. 182
Appendix D Statement of Cash Flows……………………………p. 184
Appendix E Notes to the Financial Statements……………………p. 186

Appendix to Chapter 5
Appendix F Voluntary Guidelines on IC Reporting………………..p. 197

List of Acronyms

AAA	American Accounting Association
AICPA	American Institute of Certified Public Accountants
APB	Accounting Principles Board
ARPU	Average Revenue Per User
ASC	Accounting Standards Council
BAM	Business Activity Monitoring
BCC	Banking Control Commission
BDL	Banque du Liban
BIS	Bank for International Settlements
BNDES	Brazilian Development Bank
BOT	Build-Operate-Transfer
BSE	Beirut Stock Exchange
CAS	Central Administration for Statistics
CCD	Companies Control Department
CCWG	Climate Change Working Group
CG	Corporate Governance
CSD	Corporate Social Disclosures
DATI	Danish Agency for Trade and Industry
DC	Dominated Culture
EBRC	Enhanced Business Reporting Consortium
EDGAR	Electronic Data Gathering, Analysis, and Retrieval system
EFFAS	European Federation of Financial Analyst Societies
EFRAG	European Financial Reporting Advisory Group
ESCWA	United Nations- Economic and Social Commission for Western Asia
ESG	Environmental, Social, and Governance reporting
EU	European Union
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
GCC	Gulf Corporation Council

GN4	Guidance Note 4
GRI G4	Global Reporting Initiative Guidelines fourth generation ("G4")
GRI	Global Reporting Initiative
HCA	Higher Council of Accounting (HCA)
IAS	International Accounting Standards
IASB	International Accounting Standard Board
IC	Intellectual Capital
ICT	Information and Telecommunication Technologies
IFAC	International Federation of Accountants
IFI	International Financial Institutions
IFRS	International Financial Reporting Standards
IIF	Institute of International Finance IIF
IIRC	International Integrated Reporting Council
IMF	International Monetary Fund
IP	Intellectual Property
<IR>	Integrated Reporting
IVSC	International Valuation Standard Council
KPIs	Key Performance Indicators
LACPA	Lebanese Association of Certified Public Accountants
MD&A	Management Discussion & Analysis
MENA	Middle East and North Africa
METI	Japan Ministry of Economy, Trade and Industry
MIC1	Mobile Interim Company 1
MIC2	Mobile Interim Company 2
MoF	Ministry of Finance
MoU	Memorandum of Understanding
NGOs	Non Governmental Organizations
OECD	Organization for Economic Co-operation and Development
PCG	Plan Comptable Général
QoS	Quality of Services
R&D	Research and Development
ROSC	Report On The Observance Of Standards And Codes

SASB	Sustainability Accounting Standards Board
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
SKE	Society for Knowledge Economics
SMEs	Small- and Medium-Sized Enterprises
TRA	Telecommunications Regulatory Authority
UNEP FI	United Nations Environment Programme Finance Initiative
UNEP	United Nations Environment Program
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNIDO	United Nations Industrial Development Organization
VAT	Value Added Taxes
WICI	World Intellectual Capital / Assets Initiative
WIPO	World Intellectual Property Organization

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Chapter 1 Intervention of the State in business reporting between rationales, rules, and actions

1.1. Introduction

The work aims to analyze and understand the reasons underlying government intervention in business reporting and non-financial performance measurement (and not in traditional accounting), as well as the associated processes, actors, and effects.
For hundreds of years, financial reporting has been the new and *only* focus of corporate reporting. In recent times, business reporting has increasingly become an important development in the field of corporate disclosure for external stakeholders.

This section will begin in the first part with describing the accounting and regulation in order to give the reader a broader understanding of the accounting concepts and limitations. The second part will explain the process of financial reporting, and intangible assets will be defined under IFRS IAS 38. Many researches in the field of Intangibles and accounting of intangible assets will demonstrate that the traditional accounting model needs to be modified or at least broadened to reflect intangible resources properly and in the large sense (because it is limited), so as to enhance the usefulness of accounting information. The study will preset how companies are working under IFRS practically and accounting for their intangible assets.

In the broad sense of the term, financial reporting is the communication of financial information that includes general purpose financial statements such as income statements, balance sheets, equity reports, cash flow reports, notes to these statements, and additional items such as Securities and Exchange Commission (SEC) filings[1], press releases, minutes of meeting, and auditor's reports. These financial reports are subject to various directives, regulations and standards from organizations such as the Directive (2013/34/EU) of the European Parliament and of the Council (New European

[1] EDGAR, the Electronic Data Gathering, Analysis, and Retrieval system, performs automated collection, validation, indexing, acceptance, and forwarding of submissions by companies and others who are required by law to file forms with the U.S. Securities and Exchange Commission (SEC). Its primary purpose is to increase the efficiency and fairness of the securities market for the benefit of investors, corporations, and the economy by accelerating the receipt, acceptance, dissemination, and analysis of time-sensitive corporate information filed with the agency.

Accounting Directives), the SEC, the Financial Accounting Standards Board (FASB), and the International Accounting Standards Board (IASB).

In essence, the scope of financial reporting in function of time horizon is limited to backward looking and the range and quality of information concentrate almost on information that can be quantified in monetary terms excluding the important percentage of a non-financial nature called stock of "Intangibles". As we know today, intangibles such as human, organizational, and relational resources and activities of an organization do not figure on the balance sheet of a company.
Furthermore, the need for reporting them becomes necessary today in the rise of the knowledge economy from the company's and users' perspective.

In today's knowledge economy[2], company value is no longer driven primarily by tangibles assets, but is increasingly based on non-financial business drivers recognized as intangible assets of a company. Consequently, success and company's value creation depend on the effective management and measurement of these critical capital resources that comprise the Intellectual capital of the business corporation.
Incorporating both material financial and non-financial information will address the importance of "value creation model" concept. The management of intangibles can be internalized effectively by an organization into Intellectual Capital (IC) elements to manage the value creation processes using Intellectual Capital Reporting which leans towards more value creation process from a company perspective and is based mainly on Key Performance Indicators (KPIs).
But since intangibles cannot be capitalized to the balance sheet and must be expensed, this ill-treatment of intangible investments means that income is understated and is not good for the companies that are seeking investors and that are trying to demonstrate their business growth and success.

[2] The revolution in communication, the digitization of media or Being Digital (Negroponte,1995), the inexpensive cost of using telecommunications worldwide, the widespread diffusion of computers, the increasing pressure on organizational costs and margins, changing organizational models, including empowerment of workers, partnering, downsizing outsourcing, cross functional business processes and virtual teams, the rapidly shrinking cycle times, the creation of intelligent products and services, the demand for customized products and services and overseeing firms investments and Information Technology investments as the most critical investments are insistently today the main drivers of visualizing, recognizing, measuring and disclosing intangibles.

In comparison with financial reporting, business reporting focuses on the core substance of an organization by addressing the entity's specific value creation mechanism, the idiosyncratic resources including non-financial ones, the future prospects, and finally the strategy in order to better connect a company and its stakeholders. The main idea behind business reporting is that financial information communicates about the past performance of the enterprise, but it tells very little about its future potential. Reporting on intangibles becomes at the moment like challenging the status quo of accounting as financial statements being bounded in their scope. Furthermore, the increased transparency is becoming more imperative at present to public and private companies, not-for-profits, and governmental entities for both internal and external reporting purposes.

Within a crowded world of non-financial information (Zambon, 2013, pp. 2-3) the evolution of reporting is evident and substantiated the contemporaneous presence of financial statements, Management Commentary, Governance and Remuneration reports, Sustainability Reporting, and Integrated Reporting.

Furthermore, international initiatives on reporting intangibles were very active at academic level, IASB level, governmental level, institutional level, accounting authority level, at United Nations level, and the Securities and Exchange Commission (SEC) amendments.

The thesis is grounded in the context of intervention of government in business reporting and does not discuss sustainability reporting neither corporate social reports provided that the intention and the perspective of each of these reports are different in orientation and in metric calculation.

The study presents the case of Lebanon as a phenomenon and an interesting case because it addresses the call for more relevant information from the need of a government defined as a first time government intervention in business reporting in a region where guidelines on IC reporting are absent. As well it addresses the presence of a gap between accounting and business reporting developments particularly in the Middle East Region where more interventions and literatures are characterized in accounting than in business reporting.

1.2. Accounting and Regulation: approaches and limitations

This section commences with the definition of accounting and regulation, and it is followed by a discussion of the main limitations of accounting.
First, Hendriksen (1982) described the accounting theory as "logical reasoning in the form of a set of broad principles that (1) provide a general frame of reference by which accounting practice can be evaluated, and (2) guide the development of new practices and procedures". According to him, "an accounting theory may also be used to explain existing practices to obtain a better understanding of them. But the most important goal of accounting theory should be "to provide a coherent set of logical principles that form the general frame of reference for the evaluation and development of sound accounting practices".

Second, Deegan et al. (2006) stated that there is no universal agreement on how accounting theories should be developed, since there are so many perspectives on the role of accounting theory.

Third, a brief historical perspective of the accounting framework shows that accounting as a discipline has developed centuries in an evolutionary manner from the need to keep a record of transactions between parties to communicate the results of those transactions to interested parties. As business activities became more sophisticated in the early nineteenth and the twentieth centuries, greater demands were placed on accounting disclosure. Consequently and in order to meet the demands, a set of rules was inductively developed by observation and by drawing generalized conclusions of existing practices from practical observations and measurements to ensure the orderly processing of accounting data and a more consistent reporting framework.

Fourth, the utility of accounting history and its potential in relation to current theoretical and practical concerns appeared to have a significant level of acceptance at the present time, and it is seen as changing, or capable of being changed in response to demands expressed or implied by a changing environment (American Accounting Association, 1970; Chatfield, 1977; Littleton & Zimmerman, 1962; Lee & Parker, 1979; Kaplan, 1984). Therefore, accounting develops in response to the needs of the environment and

society. In addition, when nations of different levels of economic development come into contact, it is natural that the nation lagging behind will begin an effort to reduce the gap or difference between itself and the more advanced nation (Kyojiro Someya, 1996). According to the same author, there was a causal relationship between the two accounting revolutions in Japan and the result of "just a catching-up process".

Fifth, an overview done on accounting definitions reveals the existence of more than one description. There are three definitions listed in this paper for accounting and they are the most often quoted explanation given by the American Institute of Certified Public Accountants (AICPA), American Accounting Association (AAA), and Accounting Standards Council (ASC).

In 1953, the American Institute of Certified Public Accountants (AICPA) defined accounting (AICPA, 1953: Par. 5);

"as the art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are, in part, at least, of a financial character, and interpreting the results thereof".

With greater economic development, the meaning of the term accounting gradually became broader and in 1966 the American Accounting Association (AAA) defined Accounting as (AAA, 1966:1);

"The process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information".

Further, in 1970 the AICPA defined accounting as (AICPA, 1970: Par. 40);

"a service activity. Its function is to provide quantitative information, primarily financial in nature, about economic entities, that is intended to be useful in making economic decisions, in making resolved choices among alternative course of actions".

These explanations show an evolution-fact of the accounting term and its practices. It must be noted that each sentence illustrates various ways of thinking (it is a language in order to communicate the results, it is a process of …which ends up with an outcome based on real objectives, or it is a service activity with an intended function) and different

objectives-perspective (to record - classify - and summarize, to judge, and finally to make or take the right economic decision) over a long time period (1953-1966-1970).
Historically and from users' perspective, accounting information is intended to help internal and external users with direct or indirect interests to make better financial decisions. Internal users (or Primary Users) of accounting information include the management, employees, and owners. Accounting information is presented to internal users usually in the form of management accounts, budgets, forecasts and financial statements. External users (or Secondary Users) of accounting information include the creditors, tax authorities, investors, customers, regulatory authorities.

Sixth, financial reporting is the process of producing information for external use often in the form of financial statements. Obviously, financial statements reflect an entity's past performance and current position based on a set of rules, standards, and guidelines. For example, the phrase "generally accepted accounting principles" or "GAAP" is known only in the USA and consists of three important sets of rules: (1) the basic accounting principles and guidelines, (2) the detailed rules and standards issued by FASB and its predecessor the Accounting Principles Board (APB), and (3) the generally accepted industry practices. GAAP[3] refers to the standard framework for financial accounting used in any given jurisdiction in the United States. This framework generally includes accounting standards, and accounting conventions that accountants must follow in the preparation of financial statements.
Basically, financial statements represent a formal record of the financial activities of an entity, reflect the financial effects of business transactions and events on the organization, and are written reports that quantify the financial strength, performance and liquidity of a company.
The traditional financial statements required to be prepared by a business are identified by the International Accounting Standard Board (IASB) in International Accounting Standard 1 (IAS 1: Par. 10)[4].

[3] Further, if a company's stock is publicly traded, federal law requires the company's financial statements be audited by independent public accountants. Both the company's management and the independent accountants must certify that the financial statements and the related notes to the financial statements have been prepared in accordance with GAAP.

[4] IAS 1 was reissued in September 2007 and applies to annual periods beginning on or after 1 January 2009.

IAS 1 ("Presentation of Financial Statements") sets out the overall requirements for financial statements, including how they should be structured, the minimum requirements for their content and overriding concepts such as going concern, the accrual basis of accounting and the current/non-current distinction. The standard requires a complete set of financial statements to comprise:

1. A statement of financial position at the end of the period ("balance sheet");
2. A statement of profit or loss for the period and other comprehensive income;
3. A statement of changes in equity for the period;
4. A statement of cash flows for the period; and
5. Notes, comprising a summary of significant accounting policies and other explanatory information. Accordingly, the notes are considered an integral part of the basic financial statements and shouldn't be used to correct improper presentations.

According to Lev (1988), the term "financial reporting regulation" includes all regulations instruments like laws, rules, accounting standards, setting prices, and taxes that affect the characteristics of financial reporting practice like timing, content, form and verification. Financial reporting regulation takes the form of financial reporting legislation through company law or financial reporting standards issued by governmental bodies or by private organizations.

Seventh, the main limitations of accounting are summarized in the Table 1.1 as follows:

Table 1.1. - The main limitations of accounting

	Limitations
1	It takes only accounts transactions that are measured in monetary terms. It records only financial transactions and ignores qualitative information.
2	It presents entity's past performance and lacks predictive value (prospects)
3	The historical cost is the widely used basis for measuring the value of assets reducing the relevance of accounting information.
4	The use of professional judgment while interpreting the requirements of accounting standards and their real application: the method of calculating depreciation, rate of provision of doubtful debts and stock valuation method are decided by accountant, etc.
5	The use of different accounting frameworks by companies operating in different geographical areas.

Source: Own elaboration

In addition to the above issues, we recently recognized other limitations which are related to “the status quo of reporting intangibles in accounting”. According to Zambon (2013), accounting is “parsimonious with the truth” for the following reasons: first, it is based on backward information; second, it stresses reliability rather than relevance; third, it is very poor on providing information - long term growth drivers KPIs; fourth, it provides a vague idea of company value; fifth, it has a wide anchorage to financial figures only; sixth, measurements essentially are at historic cost; and seventh, there is a problematic implementation of fair value.

Eighth, this paragraph describes the requirements of the IASB’s IAS 38 and considers the consequences of its adoption and this will be done to give the reader a broader understanding of the accounting concepts and what is done in practice.

The reporting of intangibles under IAS38 seems to suffer from a suspicious attitude because there are a number of challenges when it comes to accounting of intangibles since the adoption and implementation of IFRS regulation. The standard “IAS 38” is the part of the IFRS regulation that deals with how intangible assets should be treated in accounting. IAS 38 was issued in early 2004 as a part of “IFRS 3 – Business Combinations” by the IASB.

Under IFRS, intangible asset is defined as “a non monetary asset without physical substance” (IAS 38:8); Common examples include patents, copyright agreements, brands, research and development expenditure, and franchises. The standard requires enterprises to recognize an intangible if, and only if, certain criteria are met. The three main criteria are: 1) identifiability[5], 2) control[6], and 3) generation of future economic benefits and reliable measurement of these benefits. To be capitalized they must meet the

[5] An asset is a resource that can be controlled by an entity as a result of past events, and from which future economic benefits are expected to flow to the entity. In IFRS, an asset is an economic resource. Anything tangible or intangible that is capable of being owned or controlled to produce value and that is held to have positive economic value is considered an asset. Simply stated, assets represent value of ownership that can be converted into cash (although cash itself is also considered an asset).

[6] An entity controls an intangible asset if it has the power to obtain future economic benefits and/or it can restrict the access of others to those benefits. Capacity to control is usually achieved via legal rights but that is not a necessary condition (IAS 38 13 Control power over future economic benefits). Further considerations of characteristics potentially giving rise to future economic benefits are market and technical knowledge (IAS 38 14 Control protection of future economic benefits), the (continued) availability of a team of skilled staff (IAS 38 15 Control over specific talents unlikely) and the availability of a portfolio of customers or market share (IAS 38 16 Control over customer relationships).

definition of an intangible asset[7] (IFRS definition). They must be identifiable[8], control must exist over a resource and there must be an existence of future economic benefits. If it fails any of these criteria, then expenditure on intangibles should be expensed (IAS 38 10 Potential intangible asset expensed).

In this context, the valuation and accounting for intangibles have become the most critical issue because intangible assets are intangible and also problematic and challenging to define and quantify.

For example, there have been difficulties in accounting for these "Externally acquired intangibles" assets. First, these assets are purchased from outside the firm, and usually have identifiable costs and discernible benefits. Second, there has been a conservative tendency to expense many of the costs involved. Third, for those capitalized intangibles there have been inconsistent approaches to recording, revaluing, and amortizing. Similarly, intangible assets that are developed within the firm, "Internally-generated" intangibles, have caused recognition problems because these assets are developed, usually over a period of time within the firm and have traditionally been ignored and not recognized in the financial statements. Generally, the reason for the omission[9] from the financial statements of these internally generated intangible assets is due to a lack in perception of a relation between their costs and specific future revenue. Therefore, under IFRS, internal generated goodwill cannot be capitalized (Artsberg, 2005).

The importance of intangible assets has also been the subject of scrutiny by investment analysts and academics. For example, two leading commentators (Lev and Zarowin, 1999) on intangibles have argued that "the increasing rate of business change, largely is driven by investments in intangibles coupled with the delayed recognition of this change in the accounting system is reflected in the declining usefulness of accounting information".

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[7] Intangible assets are defined as identifiable non-monetary assets without physical substance. Examples include computer software, patents, copyrights, motion picture films, customer lists, mortgage servicing rights, fishing licences, import quotas, franchises, customer or supplier relationships, customer loyalty, market share and marketing rights (IAS 38 9 Example list of intangible assets).

[8] An intangible asset meets the identifiability criterion in the definition of an intangible asset when it is separable; i.e. capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations (IAS 38 12 Identifiability separable or legal right).

[9] In Veblen, T. (1904) The Theory of Business Enterprise. New Brunswick, N.J.: Transaction Books, c1973.
For example, in 1904 the US economist Thorstein Veblen commented 'The substantial foundation of the industrial corporation is its immaterial assets' which he recognized consisted of intangible assets but thought that 'there may be peculiar difficulties in the way of reducing this goodwill to the form of a fund, expressing it in terms of a standard unit'.

Consequently, perceiving the mismatch of expenditure on intangible assets, which is expensed *immediately* while the benefits occur *later,* will let us understand the same idea that Upton (2001) has called a combination of the "time gap" and the "correlation gap". The time gap describes the costs of intangibles that occur long before the resulting product can demonstrate probable benefits while the correlation gap asserts that the relation between the value of intangibles and future benefits does not exist, or is not as clear as that for tangible assets. According to the same author, both gaps have tended to hinder the recognition of intangible assets. Basically, the difficulties in ascertaining cost or valuation figures for intangibles and a focus on reliability over relevance[10] when disclosing asset information have meant that self-generated intangibles have not usually been recognized.

Further, the nature of internally generated intangibles can be explained by comparing the accounting recognition of intangibles and the market value of the firm.

Table 1.2 demonstrates the difference in recognizing internally generated intangibles which is captured by the market, while not perceived in accounting book. For example, the accounting position total funds or book values of debt and equity and total assets, including recognized externally acquired intangible assets, are each $100 in its balance sheet and the firm's enterprise value or the market values of debt and equity is $600. Assuming the recognized assets include externally acquired and other qualifying intangibles, current reporting practice does not recognize any other intangible assets in the financial statements, even though the $500 difference may be recognized by the market.

Table 1.2. - Current reporting practices versus the market value of the firm

Figure 1

Current reporting practice versus the market value of the firm

	CURRENT PRACTICE	MARKET VALUE
Recorded assets including recognised intangibles	100	100
Internally generated intangible assets not recognised as assets in current practice	---	500
Total assets	100	600
Liabilities and equity	100	600

Source: LIoyd, 2007.

[10] Reliability refers to information which is free from material error and bias and faithfully represents the entity's transactions and events. There is no emphasis on whether the reliably recorded information is useful to the users of the financial statements. While relevance exists when the information influences the economic decisions made by users of financial statements.

Similarly, recent research papers (Healy et al., 2002; Lev and Sougiannis, 1996, 1999; Aboody and Lev, 1998; Zhao, 2002) show that capitalization of R&D costs and software development costs is value relevant. Accounting for R&D becomes an open issue[11] because the US standard setters mandate that all R&D costs are immediately expensed under Statement of Financial Accounting Standards (SFAS) N°2, whereas International standards prescribe a capitalization of R&D costs if they meet certain criteria (IAS 38). The standard (IAS 38) prescribes two phases of expenditures: the research phase and the development phase. Under IFRS - IAS 38 database, research[12] and development[13] are "the two keywords in innovation". Research is expensed under IFRS because there is no link to a tangible or legal item as the bearer of future economic benefits, while development may be capitalized and depreciated over the useful life of the product/IP/license developed. The problems remains in the research costs because they are considered very distant from and unconnected with probable future benefits to comprise assets and must be expensed according to IAS 38.

An empirical study completed by Lev and Zarowin (1999), states that accounting rules require the expensing of "in-course R&D" (i.e., acquisition of technology and know-how, extensive employee training, and reorganization of divisions and production lines) given the uncertainty of their benefits; but according to the same authors such expensing behavior understates current earnings and book values and overstates subsequent earnings *if the planned efficiencies materialize*. For that reason, Lev and Zarowin (1999) proposed that as the expected consequences of the reorganization materialize, both the current and the previous financial statements should be restated in order to reflect the capitalization of the research charges (*by reversing their previous expensing*) and the *amortization* of the capitalized amount over the expected duration of benefits should be done. This kind of restatement will correct (based on Lev and Zarowin empirical studies) both the understatement of earnings in the restructuring period and the overstatement of earnings in subsequent periods.

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[11] IFRS - "IAS 38 55 Research phase no existence intangible asset" defines that "in the research phase of an internal project, if an entity cannot demonstrate that an intangible asset exists that will generate probable future economic benefits. Therefore, this expenditure is recognized as an expense when it is incurred".

[12] Under IFRS, Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.

[13] Under IFRS, Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

Ninth, while there has been a progressive movement into a knowledge-based, fast changing, technology intensive economy, investments in human resources, information technology, research and development and advertising have become essential in order to strengthen the firm's competitive position and ensure its future viability. Consequently, companies consist today of increasing amount of intangible assets and these capital resources are considered major part of the companies' total assets. For that reason, financial statements are becoming less informative on the firm's current financial position and future prospects (Lev and Zarowin, 1999). This indicates the loss of relevance in accounting information and is increasing the gap between the market value and the book value of equity of most companies in most countries. Lev and Zarowin (1999) documented a significant increase in the market-to-book ratio of US firms, from a level of 0.81 in 1973 to a level of 1.69 in 1992 (which means nearly 40% of the market value of companies is not reflected in the balance sheet). In their view, this represents not only a revolutionary change in the process of economic value creation, but also a decline in the value relevance of traditional financial measures. In other words, the traditional accounting model needs to be modified or at least broadened to reflect intangibles, so as to enhance the usefulness of accounting information.

Tenth, the conservative measurement criteria which is based on a general principle to generally expense them as at cost (and if is recognized as an asset (e.g. development expenses) they are valued at cost and not at current value) and the historical cost assumption place also limitations on financial statements because most transactions reported on financial statements are recorded at their amounts on the dates of the transactions. Many assets previously acquired are recorded on the balance sheet at their cost and when fair values significantly change, the balance sheet becomes less relevant and over time, discrepancies develop between current and historical costs.
As a result to such consideration, financial statements present an account of the past performance of an entity, and offer limited insight into the future prospects of an enterprise (lacking predictive value that is essential from investors' point of view[14]).

[14] Financial statements are susceptible to fraud and errors which can undermine the overall credibility and reliability of information contained in them. Deliberate manipulation of financial statements that is geared towards achieving predetermined results (also known as 'window dressing') has been an unfortunate reality in the recent past as has been popularized by major accounting disasters such as the Enron scandal.

Indeed, financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit, and similar decisions. Therefore, any event that is likely to affect a firm's current financial position or its future performance should be reflected in its annual accounts. But the existence of significant differences in the criteria adopted for the recognition, measurement and depreciation of intangible assets across countries, may affect the ability of certain firms to compete for capital in financial markets[15]. As Glen Lehman has stated in an Accounting Forum (2001) in his editorial (a particularly pertinent statement given the Enron and Worldcom disasters in the USA): "Accounting might benefit by exploring its direction and future. Accounting must improve 'community usefulness' and not just simply expand into other fields such as information technology if it is to remain committed to the public interest. The technology of accounting might benefit through consideration of the relationships between regulation and construction of community virtues. Accountants have been criticized for assuming that if the 'figures' are constructed in line with current mandatory and legislative requirements, then the accounts are true and fair. Yet what is reported often bears little relation to a reasonable view of the true financial health of the enterprise. Future accounting research might work toward explaining the means through which corporations might be enabled to act in the interests of the communities they serve".

Today, the evolution of better corporate reporting oriented toward achieving concise, relevant and focused information about the strategy, governance, performance, and prospects of a business to support investor decision-making, is the shared goal of the International Integrating Reporting Council (IIRC Press Releases; 15 August 2013; 18 July 2013; 12 June 2013). The rise of business reporting is accelerating the transition to a resource-efficient economy due to the existence of an information gap in the reporting documents of an organization.

All the above issues have pushed a greater and greater interest towards new forms of corporate reporting and have articulated towards the rise of business reporting that will be the subject of the next paragraph.

[15] For example, the full expensing of goodwill would penalize firms operating in some countries when competing with a foreign company for a business acquisition, as its reported earnings would be lower after the combination (Johnson and Tearney, 1993).

1.3. The rise of business reporting

In today's economy, value is being created by intangible (intellectual) capital. Failure to effectively address the problem of inconsistency in the measurement and reporting of intangibles, to clearly respond to the criticisms of how intangible capital are recognized, measured and disclosed on the statement of position, are creating the need and raising the awareness for improved disclosures about intangibles in the corporate disclosure report.
Corporate disclosure[16] is critical for the functioning of an efficient capital market and it can also be directed to stakeholders other than investors, and there are significant regulations governing corporate reporting and disclosure in all countries around the world. We might be asking ourselves these questions: Why is there a need for regulation of disclosure about intangibles? What and where to disclose those capital resources? Are firm disclosures made outside the financial statements credible? And other important questions when considering the adequacy and completeness of corporate disclosures. The first section examines the forces that give rise to demand for additional disclosure about intangibles, by focusing on the meaning of business reporting, by defining the related actors and/or institutions responsible for increasing the credibility of disclosures, and as well as the associated processes. Further, the second section will focus on the management report in three different levels: firstly, the "Management Report under the European Accounting Directives"; secondly, "Management Commentary according to the IASB"; and finally, "The Management Discussion & Analysis (MD&A) in the USA". The second section will introduce Intellectual Capital Reporting and its composition. And the final section will introduce Integrated Reporting as a process that results in communications by an organization about value creation over time.

1.3.1 The meaning of business reporting

This paragraph is focusing on business reporting. This will be done in three different levels. The first part will focus on the contents of business reporting and its objectives, the second part and the third part will tackle the different actors/organizations involved in

[16] Firms provide disclosure through regulated financial reports, including the financial statements, footnotes, management discussion and analysis, and other regulatory filings.

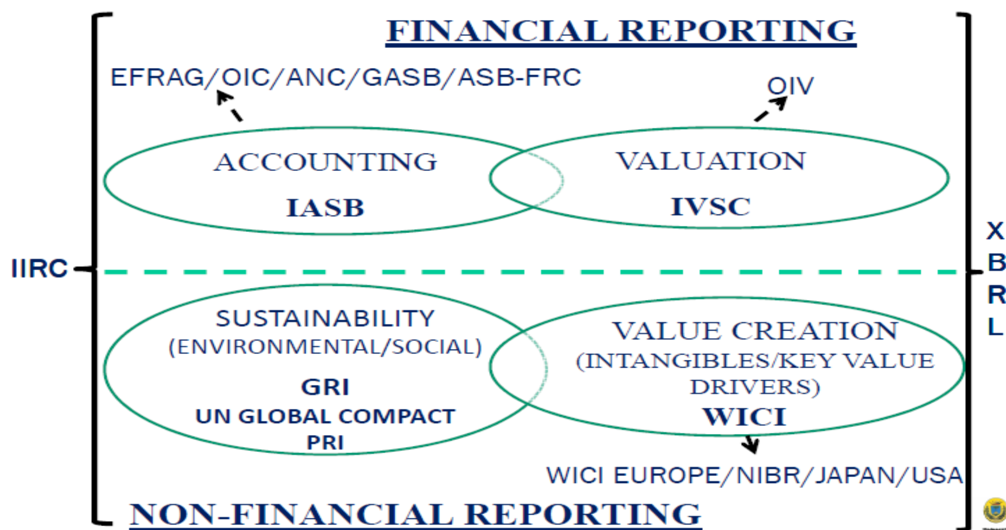
the financial and non-financial reporting, and their respective processes that lie behind each organization's framework.

Business reporting is broader in scope than traditional financial statements and focuses on the business, includes non-financial performance metrics, and contains prospective information. It is about strategy and growth, risks and opportunities, results and outlook, and also investment and financing. The objective in preparing a business reporting should be to improve the company's overall financial disclosure by providing a balanced discussion of the company's financial performance and financial condition including, without limitation, such considerations as liquidity and *capital resources* – openly reporting bad news as well as good news (Deloite, 2013). Certain statements in the business reporting may be forward looking which means that information and statements are based on the best estimates available to the Company at the time and involve known and unknown risks, uncertainties[17] or other factors that may cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements.

According to Zambon (2013), the world is crowded today by non-financial information which is represented as follows in the Table 1.3.

[17] Factors of uncertainty and risk that might result in such differences include the risks related to the possible failure to realize anticipated benefits of acquisitions, additional indebtedness, credit, interest rate, inventory pricing, currency fluctuation, fair value, source of supply, environmental regulations, competition, dependence on key personnel, business interruptions, protection of intellectual property, international operations and collective agreements.

Table 1.3. – The "crowded" world of non – financial information



Source: Zambon, 2013.

The overview of the international reporting scene reveals the existence of financial reporting, non-financial reporting and more than one related actor. They are represented by the International Valuation Standard Council (IVSC), the International Accounting Standard Board (IASB), the World Intellectual Capital Reporting (WICI), the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), European Financial Reporting Advisory Group (EFRAG), and other actors.

The International Valuation Standards Council (IVSC) is the established international standard setter for valuation and through the International Valuation Standards Board. The IVSC develops and maintains standards on how to undertake and report valuations, especially those that will be relied upon by investors and other third party stakeholders. The IVSC also supports the need to develop a framework of guidance on best Improvements Project that made significant changes to the IVSC pronouncements and their presentation. And the new IVS 210 *Intangible Assets* published in July 2011 contained some of the material in the new GN4, but according to IVSC source, it was necessary to create a new Technical Information Paper (TIP) to provide the more detailed

guidance that appeared in the GN. There had been extensive consultation practice for valuations of the various classes of assets and liabilities and for the consistent delivery of the standards by properly trained professionals around the globe[18]. In February 2010 the IVSC Standards Board issued a revised GN4 *Intangible Assets* and this was the result of a four year project to review and updated the previous GN4 issued in 2000 to reflect developments in valuation practice driven by the increased need for intangibles to be valued in financial reporting following the introduction of IFRS 3 Business Combinations and its equivalent under US GAAP. The 2010 GN4 was published near the start of the IVS between 2006 and 2010 in developing the new GN4 and there had been further consultation on IVS 210 and the Board did not consider that any changes were necessary to the technical content or other advice provided.

Going back to March 2010, the International Valuation Standards Council has published an updated Guidance Note 4 (GN 4) on the valuation of intangible assets. The revised GN 4 identifies the principal techniques that are recognized for the valuation of intangible assets such as brands, intellectual property, and customer relationships, and gives guidance on how these are applied. Based on the revised GN 4, IVSC recognized that there was a need to produce more comprehensive and authoritative guidance on valuing intangibles, for the benefit of not only companies and their advisors but also investors and others who rely upon financial statements. The revised guidance is the result of a project commenced in 2006 which has involved extensive consultation with valuation professionals, auditors and users of valuations around the globe. According to revised GN4, intangible assets have been valued by companies or their advisors for many years, but the adoption around the world of International Financial Reporting Standards (IFRS) has greatly increased the need for consistency and transparency[19]. Referring to IVSC information source[20], the necessary changes were to the presentation of the material, to update terms and cross references in order to reflect the new IVS 210, and

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[18] The IVSC has published International Valuation Standards (IVS) since 1985. Existing pronouncements are subject to biennial review and the IVSC also undertakes projects in other areas as circumstances warrant. Membership of IVSC is open to organizations of users, providers, professional institutes, educators, and regulators of valuation services. IVSC members appoint the IVSC Board of Trustees; source http://www.iasplus.com/en/resources/global-organisations/ivsc

[19] According to GN 4, studies of the audited accounts of listed companies have found that the quality of information provided on the value of intangible assets is often poor (i.e. In a merger or acquisition, IFRS requires the price paid to be allocated to the tangible and intangible assets based on fair values. According to GN 4, studies of the audited accounts of listed companies have found that the quality of information provided on the value of intangible assets is often poor.

[20] http://www.ivsc.org/workplan/intangible-assets

also the need to have the new guidance available as soon as possible. After IVS 210 was published, the Board agreed that no further public consultation was needed before the new TIP was introduced. The new "TIP 3 *The Valuation of Intangible Assets*" was approved by the Board in January 2012 and published in April 2012.

Furthermore, the chairman of the International Valuation Standards Board Chris Thorne confirmed that the revised guidance has been published to assist practitioners and has commented on the valuation of intangible assets such as brands, goodwill and intellectual property that is becoming increasingly important in the context of cross-border mergers and acquisitions, joint venture arrangements and for investment and lending decisions and there is too frequently a disconnect between the book value of companies and the real market value of their intangible assets.

In December 2010, the IASB has issued the Fist IFRS Practice Statement on Management Commentary within the boundaries of financial reporting where KPIs-related industries are included and providing financial and non financial information.

The history of IFRS Practice Statement Management Commentary is explained in the following Table 1.4.

Table 1.4. - The history of IFRS Practice Statement Management Commentary

2002	Project team established (involving Germany, New Zealand, United Kingdom and Canada)
27 October 2005	Discussion Paper Management Commentary published by IASB
December 2007	Project moved from research agenda to active agenda
23 June 2009	Exposure Draft Management Commentary published by IASB
8 December 2010	IFRS Practice Statement Management Commentary published by the IASB

Source: http://www.iasplus.com/en/standards/other/management-commentary

According to the same source of information, the objective of IFRS Practice Statement was to assist management in presenting useful management commentary that relates to financial statements that have been prepared in accordance with International Financial Reporting Standards (IFRSs). Accordingly, the Practice Statement is not an IFRS and

consequently, entities applying IFRSs are not required to comply with the Practice Statement, unless specifically required by their jurisdiction. Furthermore, non-compliance with the Practice Statement will not prevent an entity's financial statements from complying with IFRSs, if they otherwise do so. Management commentary should provide users of financial statements (existing and potential investors, lenders and other creditors) with integrated information providing a context for the related financial statements, including the entity's resources and the claims against the entity and its resources, and the transactions and other events that change them.
The management commentary framework explains how an entity should be consistent with the following principles: first, by providing management's view of the entity's performance, position and progress (including forward looking information), and second, by supplementing and complementing information presented in the financial statements (and possessing the qualitative characteristics described in the Conceptual Framework for Financial Reporting).

The World Intellectual Capital / Assets Initiative Network (WICI) is a private/public sector partnership for improving the reporting of intellectual assets and capital and key performance indicators that are of interest to shareholders and other stakeholders. The work in industry-specific key performance indicators is carried out by groups organized as Industry KPI Projects and active engagement is solicited from companies, investors, analysts, accountants, stock exchanges, regulators, standard setters, international collaborative organizations, and NGOs (Zambon, 2009). WICI aims to ensure wide dissemination and active use of the voluntary WICI framework and the industry-specific key performance indicators on a global basis and this requires an active collaboration of the users of capital (companies), the suppliers of capital (investors and banks) and other relevant stakeholders.
The WICI was formed on November 7, 2007 and the Founding Promoting Parties of WICI were EBRC (Enhanced Business Reporting Consortium), EFFAS (European Federation of Financial Analyst Societies), METI (the Japan Ministry of Economy, Trade and Industry), OECD (Organization for Economic Development and Cooperation), the Society for Knowledge Economics from Australia, University of Ferrara and Waseda University, Society for Knowledge Economics in Australia (SKE), and the Brazilian

Development Bank (BNDES) and European Commission (Observers). WICI proposed a new Business Reporting system where KPIs are included, and utilized the IC / Assets-based Management together with monetary/ financial capital and physical capital to realize the value creation mechanism. On 29 May 2009 WICI Europe (in Paris) was founded and its basic aims are: first, to promote the management and reporting of intellectual capital/assets at company level throughout the world and primarily in Europe through cooperation among members; and second, to promote European and international dialogue on the management and reporting of intellectual capital/assets with other organizations and interested parties such as investors, companies and their representative bodies, policy makers, regulatory authorities, stock exchanges, standard setters & universities throughout the European region. The WICI collaboration is aimed at improving capital allocation through better information, at supplement traditional accounting measures with metrics that will improve capital allocation decisions both within companies and between investors and companies and the result will be more wealth creation for a better world economy[21]. On October 16, 2008 WICI released its first version of a comprehensive information framework and XBRL taxonomy to help companies better communicate with their investors and other stakeholders about business strategy and performance. The work on the reporting framework and taxonomy was carried out through the WICI Framework Task Force. Subsequently on October 30, 2008, WICI-Japan was formed to lead Japan's activities in global business reporting. Afterward, on May 29, 2009, WICI-Europe was formed under the initiative of EFFAS, the Intellectual Assets Center in Glasgow (an official Agency of the Scottish Government) and University of Ferrara, with the aim of coordinating and promoting the effort in the above field carried out in Europe. Takayuki Sumita, Chairman of WICI Global, said "The essence of a business is to create value over the long, as well as the short and medium term, by utilizing its strengths supported by the range of capitals available to it; Therefore, the most important part of corporate reporting is for a business to tell its individual value creation story, providing evidence of how the organization has created value in the past and its plans for creating value in the future. In addition, the collaboration between WICI and IIRC will help further the evolution of corporate

[21] According to the same author Zambon Stefano, wealth creation depends on the most efficient allocation of capital on a risk adjusted basis.

reporting by creating a new corporate reporting language that will enable organizations to communicate their own value creation story more effectively with investors which will facilitate better decision making and, in turn, contribute to a more sustainable global economy." (IIRC Press release, 2013)

The Sustainability Accounting Standards Board (SASB) is an independent organization that establishes and maintains industry-specific standards for use in disclosing material sustainability issues in annual filings to the Securities and Exchange Commission[22]. SASB convenes industry working groups (IWGs) to review SASB's draft sustainability accounting standards and IWG members provide feedback on disclosure items (material sustainability issues) and accounting metrics at the industry level. Consequently, IWG members play an integral part in SASB's standards development process by ensuring each standard fully and accurately identifies and discloses the material issues for each industry. SASB Standards[23] are comprised of (1) disclosure guidance and (2) accounting standards on sustainability topics for use by U.S. and foreign public companies in their annual filings (Form 10-K or 20-F) with the U.S. Securities and Exchange Commission (SEC). To the extent relevant, SASB Standards may also be applicable to other periodic mandatory fillings with the SEC, such as the Form 10-Q, Form S-1, and Form 8-K. SASB's disclosure guidance identifies sustainability topics at an industry level and (depending on the specific operating context of a company) may be material[24] to a company within that industry. SASB's accounting standards provide companies with standardized accounting metrics to account for performance on industry-level sustainability topics. When making disclosure on sustainability topics, companies adopting SASB's accounting standards will help to ensure that disclosure is standardized and therefore useful, relevant, comparable and auditable.

Company boards, executives, and management are investing more and more time and resources on issues of sustainability (such as carbon - greenhouse gas emissions, energy efficient technology, water use, etc) and pushing towards more sustainability practices

[22] More than 1,000 individuals from individuals representing $12.5T assets under management and $5.5T market capital have participated in multi-stakeholder industry working groups informing standards development for five sectors to date. SASB standards will result in the improved performance of 13,000+ corporations, representing over $16 trillion in funds, on the highest-priority environmental, social and governance issues; Url: www.sasb.org and http://www.theiirc.org/2014/01/16/sasb-and-iirc-announce-memorandum-of-understanding/

[23] URL: http://www.sasb.org/standards/standards/

[24] Each company is ultimately responsible for determining which information is material, and which such company is therefore required to include in its Form 10-K or 20-F and other periodic SEC filings.

and this involves a need to account for, and report on, sustainability - sometimes referred to as environmental, social, and governance (ESG) reporting[25]. More organizations became involved in sustainability and integrated reporting and they are represented today by the Global Reporting Initiative (GRI), United Nations Environment Programme Finance Initiative (UNEP FI), International Integrated Reporting Council (IIRC), and other organizations.

The Global Reporting Initiative (GRI)[26] is an international not-for-profit organization, with a network-based structure. Its mission is to make sustainability reporting standard practice and enable all companies and organizations to report their economic, environmental, social and governance performance. It promotes the use of sustainability reporting as a way for organizations to become more sustainable and contribute to a sustainable global economy and produces free Sustainability Reporting Guidelines[27] and they are currently in their fourth generation[28] ("G4"). GRI was founded in the US in 1997 by CERES (a United States non-profit organization) and the United Nations Environment Program (UNEP) and was originally based in Boston, Massachusetts. In 2002, GRI moved its central office to Amsterdam, where the Secretariat is currently located and also has regional 'Focal Points' in Australia, Brazil, China, India and the USA. The United Nations Environment Programme Finance Initiative (UNEP FI) is a global partnership between the United Nations Environment Programme (UNEP) and the financial sector.

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[25] Deloitte sustainability and climate change resources; Deloitte maintains a global website dealing with sustainability and climate change resources, including specific resources on sustainability reporting, assurance and compliance. Industry perspectives and member firm resources are also available; URL: http://www2.deloitte.com/global/en/pages/risk/solutions/sustainability-services.html

[26] URL: http://www.iasplus.com/en/resources/sustainability/gri

[27] The GRI has also developed "Sector Disclosures" documents which transition G3 and G3.1 Sector Supplements to be compatible with G4. Currently, Sector Disclosures are available for the following sectors: (1) financial services, (2) oil and gas, (3) mining and metals, and (4) electric utilities. It is expected that six additional Sector Disclosures on airport operators, construction and real estate, event organizers, food processing, media, and NGO will be completed by the end of February. URL: ibid.

[28] The Global Reporting Initiative (GRI) has released updates relating to its G4 Sustainability Reporting Guidelines on February 7, 2014. The GRI has announced the availability of a new Content Index Tool which will create customized Content Index templates based on a reporter's preferences. Also, a new G4 brochure has been developed to guide new reporters on sustainability reporting and the GRI. In addition, the GRI has developed linkage documents that align the guidance between G4 and other internationally-recognized frameworks. The linkage documents are Making the Connection: Using the GRI G4 Guidelines to Communicate Progress on the UN Global Compact Principles and GRI G4 Guidelines and ISO 26000: 2010 How to use the GRI G4 Guidelines and ISO 26000 in conjunction. Further, the GRI has initiated a G4 XBRL Reports Program to promote the benefits of the GRI Taxonomy 2013, increase the interest in its voluntary filing program, and provide examples of XBRL-tagged reports.
URL: http://www.iasplus.com/en/news/2014/02/gri-updates

Over 190 institutions, including banks, insurers and fund managers, work with UNEP to understand the impacts of environmental and social considerations on financial performance. Through its Climate Change Working Group (CCWG), UNEP FI identifies the roles of the finance sector in addressing climate change, and advances the integration of climate change factors - both risks and opportunities - into financial decision-making. This is done through a work programme encompassing research, training, events and regional activities.

The International Integrated Reporting Council (IIRC) (previously the International Integrated Reporting Committee) was formed in August 2010 and aims to create a globally accepted framework for accounting for sustainability, bringing together financial, environmental, social and governance information in an "integrated" format.

The International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB) have announced that they have entered into a Memorandum of Understanding (MoU) that seeks to formalize the principles for ongoing cooperation, coordination, and alignment between the two organizations. The MoU *(The MoU is effective from the date of signing on December 17, 2013, until December 31, 2016, but may be extended by mutual agreement)* seeks to assist both organizations in reaching their mutual interests, which include the following:

1. The development of their respective reporting frameworks, guidelines, and standards to be complementary and compatible with each other.
2. Transparency and sharing of relevant and significant information.

Integrated Reporting <IR> is a process that results in communication by an organization, most visibly a periodic integrated report, about value creation over time and an integrated report is a concise communication about how an organization’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term (The IIRC Web Source).
Integrated reporting aims to combine the different strands of reporting, financial, management commentary, governance and remuneration, and sustainability reporting

into a coherent whole that explains an organization's ability to create and sustain value. The focus of an Integrated Report would be a broader explanation of performance than traditional reporting, by describing and measuring where practicable, the material components of value creation and, more importantly, demonstrating the links between an organization's financial performance and the social, environmental and economic context in which it operates.

Consequently, the IIRC (IIRC Press Release, 2011, 2013, 2014) is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs and its mission is to create the globally accepted International <IR> Framework that elicits from organizations material information about their strategy, governance, performance and prospects in a clear, concise and comparable format. The <IR> Framework will underpin and accelerate the evolution of corporate reporting, reflecting developments in financial, governance, management commentary and sustainability reporting. The IIRC will seek to secure the adoption of <IR> by report preparers and gain the recognition of standard setters and investors. Under the MoU, SASB is engaged to develop and disseminate industry-specific sustainability accounting standards, establish an understanding of material sustainability issues facing industries and create sustainability accounting standards suitable for disclosure in standard SEC filings such as the Form 10-K, which are important channels for disclosure of material issues by publicly-listed companies in the USA.

In addition, the IIRC and WICI (IIRC Press Releases;12 June 2013) have signed a memorandum of understanding to promote cooperation between the organizations in "ensuring that 'intellectual capital' is reflected as a crucial and essential source of organization's value creation within Integrated Reporting <IR>. According to IIRC press releases, these agreements follow broader agreements between the IIRC and the International Federation of Accountants (IFAC), the IASB, and the Global Reporting Initiative (GRI), and may be considered the "next phase" of alliance creation between the IIRC and organizations that focus on particular topics that will commonly play key roles in integrated reporting under the IIRC proposed international integrated reporting framework. Comments on the IIRC's Consultation Draft of its proposed framework were due by July 15, 2013, and the IIRC has announced an intention of producing a first version of its finalized framework by the end of 2013.

1.3.2 Management report

According to IIRC Press release (2014), business reporting refers to both corporate reporting (external: financial, sustainability, corporate social responsibility reports, etc) and management reporting (internal – more closely associated with management accounting).

The strategic importance and value of both corporate reporting and management reporting is seriously neglected and consequently, this neglect represents a great loss in terms of company performance and both stakeholder and shareholder value.

The purpose of this section is to reveal government intervention in business reporting and more precisely by exposing the Management Report under three different sections: the first section is dedicated for the Management Report under the European Accounting Directives; the second section describes the Management Commentary according to IASB; and the final section illustrates the Management Discussion &Analysis report in the USA.

1.3.2. a. Management Report under the European Accounting Directives

The main body of financial reporting requirements for limited liability companies in the EU consists of the following Directives:

I. Fourth Council Directive of 24 July 1978 on the annual accounts of certain types of companies.

II. Seventh Council Directive of 13 June 1983 on consolidated accounts.

The Fourth and Seventh Directives are repealed and replaced by the new Accounting Directive 2013/34/EU which entered into force on 20 July 2013. Member States have until 20 July 2015 to comply with this new Directive. Furthermore, the following legislation on financial reporting also applies to the EU listed companies under IAS Regulation 1606/2002 and under accounting standards adopted by the EU.

Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 represents the application of international accounting standards. The European Union in 2002 agreed that from 1 January 2005 International Accounting Standards / International Financial Reporting Standards would apply for the consolidated accounts of the EU listed companies. Accounting standards are adopted by the EU in the form of regulations and published in the Official Journal of the European Union and regulations are directly applicable in all Member States.

Table 1.5 summarizes the Fourth Council Directive 78/660/EEC of 25 July 1978 based on Article 54 of the Treaty on the annual accounts of certain types of companies, Seventh Council Directive 83/349/EEC of 13 June 1983 based on the Article 54 of the Treaty on consolidated accounts, Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual, and finally Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC.

Table 1.5. – Summary of EU Accounting Directives Contents: Fourth Council Directive 78/660/EEC of 25 July 1978, Seventh Council Directive 83/349/EEC of 13 June 1983, Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006, and Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013

Fourth Council Directive 78/660/EEC of 25 July 1978 based on Article 54 (3) (g) of the Treaty on the annual accounts of certain types of companies	- Whereas it is necessary, moreover, to establish in the Community minimum equivalent legal requirements as regards the extent of the financial information that should be made available to the public by companies that are in competition with one another; - Whereas annual accounts must give a true and fair view of a company's assets and liabilities, financial position and profit or loss ; whereas to this end a mandatory layout must be prescribed

	for the balance sheet and the profit and loss account and whereas the minimum content of the notes on the accounts and the annual report must be laid down ; whereas, however, derogations may be granted for certain companies of minor economic or social importance; - Whereas the different methods for the valuation of assets and liabilities must be coordinated to the extent necessary to ensure that annual accounts disclose comparable and equivalent information;
Seventh Council Directive 83/349/EEC of 13 June 1983 based on the Article 54 (3) (g) of the Treaty on consolidated accounts	-Whereas consolidated accounts must give a true and fair view of the assets and liabilities, the financial position and the profit and loss of all the undertakings consolidated taken as a whole; whereas, therefore, consolidation should in principle include all of those undertakings; whereas such consolidation requires the full incorporation of the assets and liabilities and of the income and expenditure of those undertakings and the separate disclosure of the interests of persons out with such bodies; whereas, however, the necessary corrections must be made to eliminate the effects of the financial relations between the undertakings consolidated.
Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC	-The recent spate of scandals in the US and the EU have emphasized that statutory audit is an important element in ensuring the credibility and reliability of companies' financial statements. The urgency and the need for the envisaged EU initiatives on statutory audit were confirmed and outlined in the May 2003 Commission Communication "Reinforcing the statutory audit in the EU". This proposal is one of the most important initiatives of this Communication because it considerably broadens the scope of the former Eighth Council Directive by clarifying the duties of statutory auditors, their independence

	and ethics, by introducing a requirement for external quality assurance, by ensuring robust public oversight over the audit profession and by improving co-operation between oversight bodies in the EU. -This proposal is the logical consequence of a reorientation of the EU policy on statutory audit started back in 1996 and the initial thinking has been adapted to take account of the most recent scandals. For example, the proposal now states that the group auditor bears full responsibility for the audit report on the consolidated accounts of a group of companies and it requires an independent audit committee in all public interest entities.
Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013.	Directives on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC. The new directives will be exposed within the Management Report section of this paragraph.

Source: Own elaboration based on the EU accounting Directives.

A Directive for individual financial statements has been in place since 1978 (78/660/EEC), and one for consolidated financial statements since 1983 (83/349/EEC). These two Directives provide a complete set of rules for the preparation and content of statutory financial statements. They are often referred to as the "Accounting Directives". The new Directive merges and improves these two Directives. According to the European Commission - MEMO/13/540 12/06/2013, this change, together with the

”think small first” approach reflected in the Directive makes this EU legislation better adapted to the present and future needs of preparers and users of financial statements. The Directive will reduce the administrative burden for small companies and it will also improve to a certain extent the quality and comparability of the information disclosed.
What are the main benefits of the new Directive? and why now? During the past 30 years, amendments to the Accounting Directives have added many requirements, such as new disclosures and valuation rules including detailed provisions on fair value accounting. According to the EC memorandum on financial reporting obligations for limited liability companies (Accounting Directive) – this has not only made the rules more complex and increased the regulatory burden for companies, but also sometimes made financial statements less comparable across the EU. The impact of these new requirements has been greatest on small and medium-sized companies, which are the backbone of the European economy and the main job creators in the EU. The main benefits will be summarized at the end of this section.

Management Report comes under Chapter 5 and Article 19 of the European Union Directives (Directive 2013/34/EU) which state the Contents of this report (Database on German and European Economic Law, CELOS, 2013). The management report shall include a fair review of the development and performance of the undertaking's business and of its position, together with a description of the principal risks and uncertainties that it faces. The review shall be a balanced and comprehensive analysis of the development and performance of the undertaking's business and of its position, consistent with the size and complexity of the business. To the extent necessary for an understanding of the undertaking's development, performance or position, the analysis shall include both financial and, where appropriate, non - financial key performance indicators relevant to the particular business, including information relating to environmental and employee matters. In providing the analysis, the management report shall, where appropriate, include references to, and additional explanations of, amounts reported in the annual financial statements.

In addition, the management report shall also give an indication of the future development, the R&D activities, and the information concerning acquisitions of own

shares, the existence of branches and where material for the assessment of its assets, liabilities, financial position and profit or loss.

Also, the Member States may exempt small and medium-sized undertakings from the obligation set out in content in so far as it relates to non - financial information. It is important to note the corporate governance statement shall be included as a specific section of the management report under Article 20 of the European Union Directives (Directive 2013/34/EU).

Under Article 2 of the same Directives (Directive 2013/34/EU), the requirement to prepare consolidated financial statements and a consolidated management report is applied for parent undertaking that are governed by its national law.

Under Article 23 of the same Directives (Directive 2013/34/EU), “Exemptions from consolidation”, small groups, medium-sized groups, and any parent undertaking governed by its national law are exempted from the obligation to draw up consolidated financial statements and a consolidated management report, except where any affiliated undertaking is a public-interest entity.

Under, Article 29 of the same Directives (Directive 2013/34/EU), “The consolidated management report” shall as a minimum, take into account the essential adjustments resulting from the particular characteristics of a consolidated management report required by Articles 19 and 20 and shall report the details of own shares acquired, the number and nominal value or, in the absence of a nominal value, the accounting par value of all of the parent undertaking's shares held by that parent undertaking, by subsidiary undertakings of that parent undertaking or by a person acting in his own name but on behalf of any of those undertakings. A Member State may permit or require the disclosure of those particulars in the notes to the consolidated financial statement, in reporting on internal control and risk management systems, the corporate governance statement shall refer to the main features of the internal controls and risk management systems for the undertakings included in the consolidation, taken as a whole. Where a consolidated management report is required in addition to the management report, the two reports may be presented as a single report.

Under Chapter 7, Publication, Article 30 of the same Directives (Directive 2013/34/EU), “General publication requirement”, it is stated that undertakings should publish within a

reasonable period of time that doesn’t exceed 12 months after the balance sheet date, the duly approved annual financial statements and the management report, together with the opinion submitted by the statutory auditor or audit firm.

Member States may, however, exempt undertakings from the obligation to publish the management report.

Under Article 31 of the same Directives (Directive 2013/34/EU), “Simplifications for small and medium-sized undertakings”, it is stated that Member States may exempt small undertakings from the obligation to publish their profit and loss accounts and management reports.

Under Article 32 of the same Directives (Directive 2013/34/EU), “Other publication requirements”, it is stated that where the annual financial statements and the management report are published in full, they shall be reproduced in the form and text on the basis of which the statutory auditor or audit firm has drawn up his opinion. They shall be accompanied by the full text of the audit report.

Under Article 33 of the same Directives (Directive 2013/34/EU), “Responsibility and liability for drawing up and publishing the financial statements and the management report” it is stated that Member States shall ensure that the members of the administrative, management and supervisory bodies of an undertaking, acting within the competences assigned to them by national law, have collective responsibility for ensuring that the annual financial statements, the management report and, when provided separately, the corporate governance statement; and also the consolidated ones are drawn up and published in accordance with the requirements of this Directive and, where applicable, with the international accounting standards adopted in accordance with Regulation (EC) No 1606/2002.

Under Article 34 of the same Directives (Directive 2013/34/EU), “General requirement”, it is stated that Member States shall ensure that the financial statements of public-interest entities, medium-sized and large undertakings are audited by one or more statutory auditors or audit firms approved by Member States to carry out statutory audits on the basis of Directive 2006/43/EC. The statutory auditor(s) or audit firm(s) shall also express an opinion on whether the management report is consistent with the financial statements for the same financial year, and whether the management report has been prepared in

accordance with the applicable legal requirements; or whether, in the light of the knowledge and understanding of the undertaking and its environment obtained in the course of the audit, he, she or it has identified material misstatements in the management report, and shall give an indication of the nature of any such misstatements. The same rule of consistency audit applies to consolidated accounts[29].

In summary, the Directive simplifies the preparation of financial statements for small companies and introduces the obligation for each Member State to distinguish small companies from larger ones[30]. The Directive reduces and limits the amount of information to be provided by small companies in the notes to the financial statements. For small companies only a balance sheet, a profit and loss account and notes are to be prepared to satisfy regulatory requirements. Member States may also permit small companies to prepare only abridged balance sheets and profit and loss accounts. Any small company remains entitled to provide more information or statements on a voluntary basis. The Directive also requires that in cases where there is a single filing system, the information to be prepared by small companies be similar to the tax returns if a Member State so wishes. There will be no EU requirement for small companies to have an audit and in case a Member State would nevertheless see the need for assurance, the new Directive will allow for a more proportionate approach. Directive 2012/6/EU on micro-entities has been faithfully incorporated into the new Directive (and micro undertakings are those with less than 10 employees, a turnover of not more than €0.7 million and/or a balance sheet total of not more than €0.35 million). Micro undertakings will at least be protected against complexity as much as small companies are, and the Directive permits a micro undertaking to prepare a very simple balance sheet and profit and loss account with virtually no notes, if a Member State wishes so.

How are IFRS linked to this Directive? Management Commentary according to IASB will be explained in the following section. But we will try to conclude this section by answering this question as in the following:

[29] And finally, under Chapter 9 "Provisions Concerning Exemptions and Restrictions on Exemptions" Article 36 of the same Directives (Directive 2013/34/EU), micro-undertakings are exempted to prepare a management report in accordance with Chapter 5.

[30] Small companies will be those with less than 50 employees, a turnover of not more than €8 million and/or a balance sheet total of not more than €4 million. Member States may alternatively use thresholds for turnover and balance sheet total up to €12 million and €6 million, respectively.

IFRS for small- and medium-sized enterprises was published by the International Accounting Standards Board in 2009 in order to meet the specific accounting needs of companies that are not publicly accountable (SMEs in IFRS terminology). The EU Commission examined and rejected the option to adopt the IFRS for SMEs at EU level because IFRS for SMEs would not appropriately serve the objectives of simplification and reduction of administrative burden (i.e. the Directive does not require preparation of a cash flow statement, whereas this is mandatory under the IFRS for SMEs). Nevertheless, Member States are able to permit or require the IFRS for SMEs as their accounting standard for all or some of their unlisted companies provided that the Directive is fully implemented and the standard is modified to comply with any accounting requirement of the Directive that departs from the IFRS for SMEs. In order to comply with the simpler regime introduced by this Directive, IFRS for SMEs may be available only as a voluntary option for small companies in jurisdictions where the standard is used.

1.3.2. b. Management Commentary according to the IASB

In December 2010, IASB has published the "IFRS Practice Statement No.1 on *Management Commentary"* to provide a framework for the presentation of Management Commentary that relates to financial statements and prepared in accordance with International Financial Reporting Standards (IFRS). The Practice Statement is not an IFRS. Consequently, entities applying IFRSs are not required to comply with the Practice Statement, unless specifically required by their jurisdiction. Furthermore, non-compliance with the Practice Statement will not prevent an entity's financial statements from complying with IFRSs, if they otherwise do so. The objective of the Practice Statement is to assist management in presenting useful management commentary that relates to financial statements that have been prepared in accordance with International Financial Reporting Standards (IFRS).The Practice Statement is prepared on the basis that management commentary lies within the boundaries of financial reporting. Therefore management commentary is within the scope of the Conceptual Framework for Financial Reporting. Consequently, the Statement should be read in the context of the Conceptual Framework.

The Practice Statement sets out the principles, qualitative characteristics and elements of management commentary that are necessary to provide users of financial reports with useful information. The Practice Statement (2010) refers to 'management' as the persons responsible for the decision-making and oversight of the entity. They may include executive employees, key management personnel and members of a governing body.

Management Commentary is intended to be within the boundaries of Financial Reporting and the IASB's Conceptual Framework. Management Commentary (A Framework for presentation, December 2010) is a narrative report that provides a context within which to interpret the financial position, financial performance and cash flows of an entity. It also provides management with an opportunity to explain its objectives and its strategies for achieving those objectives. Users routinely utilize the type of information provided in management commentary to help them evaluate an entity's prospects and its general risks, as well as the success of management's strategies for achieving its stated objectives. For many entities, management commentary is already an important element of their communication with the capital markets, supplementing as well as complementing the financial statements.

Management should determine the information to include in management commentary considering the needs of the primary users of financial reports. Those users are existing and potential investors, lenders and other creditors.

According to the statement, Management Commentary complements and supplements the financial statements by communicating integrated information about the entity's resources and the claims against the entity and its resources, and the transactions and other events that change them. Management Commentary should also explain the main trends and factors that are likely to affect the entity's future performance, position and *progress*. Consequently, Management Commentary looks not only at the present, but also at the past and the future.

In addition, Management should present commentary that is consistent with the following principles which is to provide management's view of the entity's performance, position and progress; and to supplement and complement information presented in the financial statements. In aligning with those principles, management commentary should include a *forward-looking information* and according to the report, the extent to which

management commentary looks forward will be influenced by the regulatory and legal environment within which the entity operates. Management should provide forward-looking information through narrative explanations or through quantified data which are information that possesses the qualitative characteristics described in the *Conceptual Framework for Financial Reporting*. Management commentary should provide information to help users of the financial reports to assess the performance of the entity and the actions of its management relative to stated strategies and plans for progress. That type of commentary will help users of the financial reports to understand for example the entity's risk exposures, its strategies for managing risks and the effectiveness of those strategies, how resources that are not presented in the financial statements could affect the entity's operations, and how non-financial factors have influenced the information presented in the financial statements.

Management commentary should set out the critical financial and non-financial resources available to the entity and how those resources are used in meeting management's stated objectives for the entity. Disclosure about resources depends on the nature of the entity and on the industries in which the entity operates. Analysis of the adequacy of the entity's capital structure, financial arrangements whether or not recognized in the statement of financial position, liquidity and cash flows, and *human and intellectual capital resources* (para. 30, p. 13), as well as plans to address any surplus resources or identified and expected inadequacies, are examples of disclosures that can provide useful information. Also, consistent reporting of performance measures and indicators increases the comparability of management commentary over time. However, management should consider whether the performance measures and indicators used in the previous period continue to be relevant. As strategies and objectives change, management might decide that the performance measures and indicators presented in the previous period's management commentary are no longer relevant. When management changes the performance measures and indicators used, the changes should be identified and explained. An entity may apply this Practice Statement to management commentary presented prospectively from 8 December 2010.

In conclusion, according to the IASB, Management Commentary should especially provide forward-looking (future-oriented) information and make us understand how nonfinancial factors have influenced and will be able to influence financial performance.

Management Commentary includes therefore financial and non-financial information including key-performance indicators (KPIs) for the industry to which the entity belongs.

1.3.2. c. The Management Discussion & Analysis (MD&A) in the USA

The Securities and Exchange Commission (SEC) was established in 1934 to manage the issuance and trading of securities by publicly held companies and to assure full and fair disclosure by those companies. SEC is a government agency which has a primary responsibility to regulate the financial reporting of companies with publicly traded securities. A company that files misleading financial statements may face civil or criminal penalties levied by the SEC. The SEC can also stop all trading in a company's securities, denying the company access to the capital markets. Public companies are required to file a number of reports with the SEC, the most common of which are Registration statement that must be filed before securities can be issued and must include audited financial statements from the registrant.

The requirements for MD&A have changed periodically since the first requirement was adopted by the SEC in 1974 (American Institute of Certified Public Accountants, 2001/2002, AT Section 701 MD&A, Par. 04). The rules and regulations for MD&A adopted by the SEC are found in Item 303 of Regulation S-K[31].

Item 303 of Regulation S-K provides the relevant rules and regulations adopted by the SEC that meet the definition of suitable criteria (Section AT 101. Par. 23–32)[32].

Under Section AT 101. Par 23–32 "Suitability and Availability of Criteria", the third general standard stands for the practitioner "who shall perform the engagement only if he has reason to believe that the subject matter is capable of evaluation against criteria that are suitable and available to users" (Par. 23).

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[31] As interpreted by Financial Reporting Release (FRR) No. 36, Management's Discussion and Analysis of Financial Condition and Results of Operations; Certain Investment Company Disclosures (Chapter 5 of the "Codification of Financial Reporting Policies"); Item 303 of Regulation S-B for small business issuers; and Item 9 of Form 20-F for Foreign Private Issuers.

[32] As interpreted by FRR No. 36, Item 303 of Regulation S-B for small business issuers, and Item 9 of Form 20-F for Foreign Private Issuers.

The suitability criteria (Par. 24) represent the standards or benchmarks used to measure and present the subject matter and against which the practitioner evaluates the subject matter. Suitable criteria must have each of the following attributes: *Objectivity* Criteria should be free from bias; *Measurability* Criteria should permit reasonably consistent measurements, qualitative or quantitative, of subject matter; *Completeness* Criteria should be sufficiently complete so that those relevant factors that would alter a conclusion about subject matter are not omitted; *Relevance* Criteria should be relevant to the subject matter.

In evaluating the measurability attribute, the practitioner should consider whether the criteria are sufficiently precise to permit people having competence in and using the same measurement criterion to be able to ordinarily obtain materially similar measurements. Consequently, practitioners should not perform an engagement[33] when the criteria are so subjective or vague that reasonably consistent measurements, qualitative or quantitative, of subject matter cannot ordinarily be obtained. However, practitioners will not always reach the same conclusion because such evaluations often require the exercise of considerable professional judgment.
Under Section 701 MD&A (Par. 69), it is sated that the practitioner's report on an examination of MD&A (or the standard report) should include: a title that includes the word independent; an identification of the MD&A presentation, including the period covered; a statement that management is responsible for the preparation of the MD&A pursuant to the rules and regulations adopted by the SEC, and a statement that the practitioner's responsibility is to express an opinion on the presentation based on his examination; a reference to the auditor's report on the related financial statements and if the report was other than a standard report, the substantive reasons should be clarified; a statement that the examination was conducted in accordance with attestation standards established by the AICPA and a description of the scope of an examination of MD&A"; and also a statement that the practitioner believes that the examination provides a reasonable basis for his opinion; a paragraph stating that "*the preparation of MD&A requires management to interpret the criteria, make determinations as to the relevancy of*

[33] Section 101, *Attest Engagements*, paragraph .01, defines an attest engagement as one in which a practitioner "is engaged to issue or does issue an examination, a review, or an agreed-upon procedures report on subject matter, or an assertion about the subject matter (hereafter referred to as the *assertion*), that is the responsibility of another party."

information to be included, and make estimates and assumptions that affect reported information; and actual results in the future may differ materially from management's present assessment of information regarding the estimated future impact of transactions and events sources of liquidity and ***capital resources****, operating trends, commitments, and uncertainties";* if the entity is a non public entity, a statement that, although the entity is not subject to the rules and regulations of the SEC, the MD&A presentation is intended to be a presentation in accordance with the rules and regulations adopted by the SEC; The practitioner's opinion on whether the presentation includes, in all material respects, the required elements of the rules and regulations adopted by the SEC, the historical financial amounts accurately derived from the entity's financial statements, the underlying information, determinations, and assumptions of the entity provide a reasonable basis for the disclosures contained therein, the manual or printed signature of the practitioner's firm, and the date of the examination report.

After many corporate collapses occurred recently, the need for improved disclosure was seen clearly. This was evidenced by the SEC Security Exchange Commission which as part the Sarbanes Oxley Act 2002, amended its MD&A guidance to specifically require information about all material off-balance sheet transactions, capital expenditures, capital resources or operating results,, arrangements, obligations, changes in financial conditions (Sarbanes- Oxley Act of 2002 as originally enacted, Public Law 107-204 – July 30, 2012[34]) as follows:

"An act to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities law, and for other purposes".

The "Disclosures Required" (Section 13 of the Securities" Exchange Act of 1934 amended) are: first, the "Accuracy Of Financial Reports.", where it is stated that "each financial report that contains financial statements, and that is required to be prepared in accordance with (or reconciled to) generally accepted accounting principles under this title and filed with the Commission shall reflect all material correcting adjustments that have been with generally accepted accounting principles and the rules and regulations of the Commission. The second required document is "Off-Balance Sheet Transactions."[35],

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[34] Title IV—Enhanced Financial Disclosures, SEC. 401., Disclosures In Periodic Reports, Section 13 of Securities Exchange Act of 134 (15 U.S.C. 78m) amended; Public Law 107-204; 107th Congress;

[35] Not later than 180 days after the date of enactment of the Sarbanes-Oxley Act of 2002.

it is stated that "the Commission shall issue final rules providing that each annual and quarterly financial report required to be filed with the Commission shall disclose all material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the issuer with unconsolidated entities or other persons, that may have a material current or future effect on financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenues or expenses''.

Finally, it is very important to observe that at the initial stage of securities market, voluntary disclosure was dominating (Yu Tian et al. ; 2009, Vol.1, No.2) However, the New York Stock Exchange Panic in 1929 has stricken seriously the regulation and in response to that crisis; the U.S. Congress issued the Securities Act of 1933 and the Securities Exchange Act of 1934, and formed the Securities and Exchange Commission (SEC), which signalized a transformation from voluntary disclosure to compulsory disclosure. And today in response also to the global financial crisis, the SEC reminded companies of their obligations to include disclosures of risks and uncertainties that if realized could affect the capital resources and the company's liquidity. Specifically, SEC has issued an interpretative release providing guidance on the MD&A requirements in order to improve the discussion of liquidity and capital resources and proposed an extensive new MD&A for the disclosure of short-term borrowings throughout reporting periods to identify period end reductions which imply improved liquidity and less leverage risk.

1.3.3. Intellectual Capital (IC) Reporting

IC Reporting is about how to communicate knowledge resources in a comprehensible and credible statement. The financial statements are becoming more static than usual by ignoring the value of important resources and telling us more about the past. IC Reporting involves identifying, measuring, and reporting the Intellectual Capital of an enterprise as well as constructing a coherent presentation of how the enterprise uses its knowledge resources (EC, 2006). Intellectual Capital is the internal (competencies, skills, leadership, procedures, knowhow, etc.) and external (image, brands, alliances, customer satisfaction, etc.) stock of intangibles "available" to an organization, which allows the latter to transform a set of tangible, financial and human resources into a system capable

of creating stakeholder value through the pursuit of sustainable competitive advantages (Zambon, 2000). Consequently, Intangibles become IC only when they are durably and effectively internalized or appropriated by an organization. Intellectual Capital is the combination of Human, Organizational, and Relational resources and activities of an organization (EC, 2006). IC Reporting is the process of creating a story that shows how an enterprise creates value for its customers by developing and using its intellectual capital (EC, 2006) and this involves identifying, measuring, and reporting its Intellectual Capital —IC Reporting as well as, constructing a coherent presentation of how the enterprise uses its knowledge resources. This leads to the writing of an IC Statement by combining numbers with narratives and are considered as complementary to management information (internal management function) and to the financial statement (external reporting function).

The partitioning of IC into three interrelated sections is today quite widely accepted: Human Capital, Organizational Capital (including Innovation Capital), Relational Capital are visualized (measured) through indicators and parameters, and accompanied by a narrative that links these parameters with company Strategy.

The following Table 1.6 presents IC Report composition:

Table 1.6. – IC Report Composition

IC Report Composition

Relational Capital	• Clients • Suppliers • Business Partners • Image/Reputation on the market • Communication
Organisational Capital	• Know-How / IPR • Innovation • Organisation • Management Control Systems • R&D
Human Capital	• Skills & Competencies • Staff Turnover • Education level • Management Leadership • Employee Satisfaction / Engagement

21

Source: Zambon, (2009).

Today, a new economic environment is emerging and companies need to understand that intangibles are the main drivers of sustainable value creation. For that reason, companies need to manage their intangibles in order to manage in a conscious way their value creation processes. According to Zambon (2009), a series of international initiatives on IC and IC Reporting were made in the corporate reporting arena at institutional, European Union, United Nations, and academic levels (Wissenbilanz phenomenon" in Germany, the Austrian law mandated IC Reports for universities, the "PIP Project" in Nordic countries, the "Observatoire sur l'immaterial" in France, the "Value Reporting" by PwC, the IC Rating, the Intellectual Assets Centre in Glasgow, the VALI Project" in Italy for IC Reporting of small-medium enterprises (SMEs), OECD, UN, The METI (Japanese government), the World Bank, the World Intellectual Property Organization WIPO, the European Federation of Financial Analysts society (EFFAS), etc).
The benefits and features of IC Valorization are summarized in the following Table 1.7.

Table 1.7. - Benefits and Features of IC Valorization

Internally	Externally
Creation of a measurement and codification culture.	Better visualization of the value creation process for shareholders, investors, and financial analysts.
Knowledge sharing within the organization.	Easier and cheaper access to funding sources.
Identification of the intangible drivers of value and risks.	Better Basel II/Basel III ratings.
Backing to the investment/divestment decisions.	Increased transparency on financial markets.
Support to the measurement and assessment of individual Business Units results.	More realistic Market Value in case of Company acquisitions / sellings, Mergers / De-mergers, Stock Exchange Listings, (Initial Public Offerings IPOs)
Regular check of the value creation in a Value-Based Management perspective.	Positive impact on external company image and reputation.
Definition of new compensation and	More solid and documented disclosure on

incentive systems.	sustainable competitive advantages.
Improvement of the internal corporate image.	
Aid to the recruiting of the best talents	

Source: Zambon, 2013.

1.3.4. Integrated Reporting (IR)

Integrated Reporting <IR> is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term. An integrated report should be prepared in accordance with the Framework (Consultation Draft of IIRC, April 2013, p. 10). According to the Consultation Draft of IIRC[36], the primary purpose of an integrated report is to explain to providers of financial capital how an organization creates value over time. Integrated Reporting aims to: first, to improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital; second, to promote a more cohesive and efficient approach to corporate reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organization to create value over time; third, to enhance accountability and stewardship for the broad base of capitals (financial, manufactured, intellectual, human, social and relationship, and natural) and promote understanding of their interdependencies; finally, to support integrated thinking, decision-making and actions that focus on the creation of value over the short, medium and long term. Therefore, The <IR> Framework reflects that corporate reporting must evolve to communicate the full range of factors that affect an organization's ability to create value over time, including traditional financial or manufactured capitals[1] as well as the equally important human, intellectual, social and relationship, and natural capitals needed to do business in the 21st century.

[36]IIRC releases the International Integrated Reporting <IR> Framework, December 23, 2013 Volume 20, Issue 36; Url: http://www.iasplus.com/en-us/publications/us/heads-up/2013/ir-framework

In conclusion, a study on the "Back end pages" (Investis research- year 1850-2008) prudential annual report pages are increasing dramatically vis a vis of "Front end pages". Consequently, this is a sign of an urgent need to report more in the back end pages rather than on front end pages of traditional corporate reports. Furthermore, the reporting mismatch between the reporting content and the business value for a typical business (Zambon, 2013) reveals that long term strategic growth, development plans are not well represented in the traditional corporate reports. As a result, Integrated Reporting comes to bring together and integrate material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates (Zambon, 2013).

1.4. Why study Lebanese accounting and business reporting?

Four important reasons will be tackled and developed in this paragraph. First, the study presents the case of Lebanon as a phenomenon and an interesting case because it is a first time government intervention in the business reporting arena in a region where guidelines on IC/business reporting are absent or virtually unknown. Second, the case study investigates the movement of Lebanese government toward new rules and standards in a world driven today by intangible capabilities and consequently it fills partially the gap of studies dealing with the technical contents of government intervention in business reporting. Third, more studies and researches were carried out in the field of government intervention in accounting rather than those done in the field of government intervention in business reporting.

As aforementioned, the purpose of the thesis is to study the government intervention in the business reporting arena using the Lebanese telecom public sector as case study. The research aims to investigate the Lebanese government intervention in business reporting more than in accounting and financial reporting as it had been always in the past. That is why the thesis will try to investigate and describe the policy and technical demanding aspects of Lebanese government intervention as a new government oriented initiative towards the disclosure of non financial information. The study will show the new strategies formulated and the actions implemented by the Lebanese government toward asking the telecom state-owned organizations for official and full compliance with KPIs as the most appropriate and relevant way of managing efficiently public utility telecom

resources and to control better its own assets. If, however, it is detained that government intervention in accounting with the prevailing accounting techniques and practices in a particular nation has come to its objectives, then what are the purpose and the need of a government to intervene in business reporting arena and ask for additional official disclosures which are concretized by the official use of KPIs (relying on non-financial and financial disclosures).

This thesis stresses on the importance of the absence of papers and studies in business reporting in the Middle East countries and, in addition, the lack of studies dealing with the technical contents of government intervention in business reporting. As a consequence, the study explains the movement of Lebanese government toward new rules and standards in a world driven today by intangible capabilities. The research explains that the traditional accounting systems do not suffice for today's organizations, whose value creation depends more on intellectual capital type resources rather than monetary or physical resources (Burgman et al., 2007).

Standardization of rules of Lebanese financial reporting is carried out by the Lebanese government and as being the rule-maker, rule-imposer and rule-enforcer. Therefore, the Lebanese government intervenes in accounting and financial reporting of businesses. In addition, Lebanon country model is characterized by a well-structured legislation framework which literally obeys the rules laid down in the legislation. For that reason, accounting standards are approved at government level (represented by the Lebanese Ministry of Finance), and then introduced by the force of the Law and Tax accounts.

The study aims also to identify and flesh out the French colonial inheritance as the major explanatory factor for the general system of financial reporting in Lebanese country. As a consequence, we expect to see Lebanese accounting system, legal framework, and cultural factors influenced by the French country model. In addition, the Lebanese country model is similar to the continental model where businesses are closely connected to banks and statutory publication of annual reports, prudent accountancy procedures which are strictly regulated and also oriented to the needs of the government. Furthermore, the study shows that the Lebanese (country telecom sector) financing systems belong to system III (Nobes, 2011) because it is dominated by Equity/insiders and this explains the absence of credits/insiders which means the absence of demands for investor-oriented reporting. As a consequence, in the absence of outside purpose,

accounting serves its traditional purpose which is calculating prudently profit distribution and income tax calculation.
Finally, the study shows that accounting is not anymore enough and do not help and serve the community in the Lebanese context for telecom state-owned sector. The problem of endorsing an important part of IFRS standards (as it is shown later in the Chapter), and the peculiarity and bounded aspects of traditional accounting have demonstrated in the case of Lebanese telecom sector that government intervention and initiatives in business reporting is seen as a necessary condition to optimize the allocation of resources (public utility) to best serve the society.

1.5. Objectives, contribution, and methodology

The major purpose of this study is to discuss first the conditions under which traditional accounting to intangibles approach and conventional approach to corporate reporting do not help companies to manage their intangibles consciously and their value creation process. The second objective is to challenge the fact that learning how to manage, how to organize, how to report these intangible resources are very important and necessary for companies in order to visualize consciously the link between value creation, management, and intangibles through a new corporate reporting system. The third objective is to show the divergence between different reporting systems and different guidelines that may worsen the problematic situation of (recognizing and measuring) intangibles. For that reason, the thesis' objective will validate that a new reporting system without government awareness (value creation process to be visualized), initiative (to issue guidelines), and intervention (by regulate by forcing the Law) at international level and national level will not avoid the divergence in corporate reporting. The final objective is that the role of the political economy approach has the potential to explain the role of regulation in disclosure practice and that regulation can significantly effects the level and content of corporate social disclosures when (Lebanese) public policy concerns exist (Lebanese telecom sector case).

The thesis intends to make both theoretical and empirical contribution to the extent body of research in business reporting and accounting and to provide new thoughts and

extensive vision on international, national, industry, organization accounting context and it is substantiated by the presence of different accounting perspectives for intangibles/capital resources, initiatives, and literatures.

Empirically, the study case aims to contribute to the stock of accounting and literatures by focusing first on the absence of official guidelines and literatures initiative to integrate Intellectual Capital Reporting in Lebanon and second, on the presence of more studies and researches carried out in the field of government intervention in accounting rather than those done in the field of government intervention in business reporting. Theoretically, the thesis hopes to contribute to accounting knowledge by challenging the existence of a world crowded world of non-financial information and Intellectual Capital Reporting and ongoing collective efforts to encompass new measures and approaches to reporting key-value drivers/intangibles.

The research addresses the following questions:

I. What are the rationales underlying the government intervention in business reporting and non-financial performance measurement (and not in traditional accounting), as well as the associated processes, actors, and effects?

II. In particular, what are the reasons, aims and consequences of the Lebanese Government decision to impose mandatory ad hoc business reporting measurements and disclosures on Telecom Companies for control and incentive purposes?

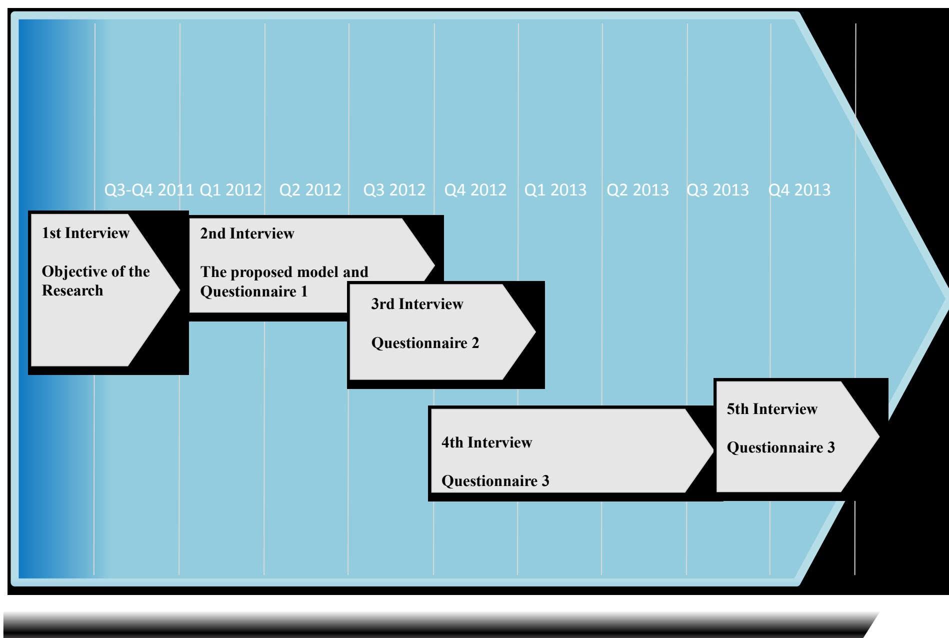
The methodology adopted in the research can be summarized as follows: a primary research was the best suited research method for the Lebanese telecom situation case because the Lebanese telecom industry does not have an abundance of published work.

There are four main stages in the primary research process:
A) planning, B) collecting, C) analyzing, and D) writing.

The first planning stage consisted of creating a research timeline and developing the research questions.

Table 1.8 illustrates the timeline of the research case study.

Table 1.8. - The timeline of the research case study: Government Intervention in the accounting and business reporting of Lebanese Telecom Sector.



Source: Own elaboration.

The questions used in the questionnaire no. 1 deal with the value creation model for Telecom Industry as proposed by WICI Europe (Interim Version 1.0). While the questions in the questionnaires no. 2 (on Human Capital) and no. 3 (on Relational Capital and Structural-Organizational Capital) were built on the basis of the list of Telecom Industry KPIs (Key Performance Indicators) proposed by WICI Europe (Interim Version 1.0) and the Danish Government Official Guidelines.

The Second Stage is about collecting data as follows: five interviews were held, three questionnaires were submitted to the Ministry of Telecoms, and many e-mails were addressed to the official persons in charge at the Ministry of Finance (the latter have never replied and this reveals a quite secretive attitude). A secondary set of data was collected from (often publicly unavailable) books and reports; journals, periodicals,

magazines and newspapers; and electronic sources such as e-journals, personal e-records, government e-records. It is important to note also, that the Financial Statements of the two Lebanese Mobile (MIC1, MIC2) and the fixed network (OGERO) companies are not publicly available.

The third Stage involves the organization of the data and its analysis and interpretation in order to answer to the research questions. Data are collected and analyzed simultaneously' (Suddaby, 2006) and compared to those relating to the same industry, where officially available, to ensure the validity of the interview findings. Whenever the answers and numbers provided in the questionnaires or interviews were unclear, the respondents were contacted again and asked for additional clarification. And finally the writing Stage includes the findings and the discussion thereof.

For the literature, the methodology used for the journal selection was performed in three steps. The first step consisted of selecting the journals in which literature reviews are in the context of government intervention in accounting and business reporting. The relevant journals in the respective discipline were selected by referring inside to the authors. After the journal list had been completed, keywords were defined to facilitate the search and selection of relevant articles. Keywords like "accounting", "business reporting", "financial reporting", "government intervention", "government accounting regulation", "state intervention in corporate reporting", and "accounting and business regulations".

The paper selection was initiated by a manual review of all the pre-selected journals. In the first step, the titles of the papers that appeared in these journals were checked in the light of the key-word. Thus, articles were identified and were subjected to a further analysis of their abstract and, in case they seem to be relevant for this literature review, selected and completely read to examine their content. In a second step, online data bases were searched to identify additional work not pre-selected and to assure that no important papers were overlooked in the first step. Thereby, articles were checked for relevance of whether they contained a keyword in the title and abstract, which led to additional articles found. Again, papers were subject to the same process of selection. In a third step, I consolidated my results and as the review needs to be focused, we excluded works that concentrated on pure accounting, IFRS implementation process, and which are not relative to the thesis subject. As a final step, papers were identified, checked and cited as

an indication that the paper might be relevant for this review. The process considered all volumes of the pre-selected journals and the online databases due to the lack of a comprehensive literature review in this discipline and this geographical area (Middle East). Appendix A gives an overview of reviewed journals and the number of identified articles and papers.

1.6. Structure of the thesis

One of the best ways to explore government intervention in business reporting is to start with the basic accounting concepts and a review of their historical development.
Therefore, the first Chapter presents the state intervention in business reporting between rationales, rules, and actions; the second Chapter reviews literatures on governmental intervention in the corporate reporting arena; the third Chapter accounting and business reporting are presented in the Lebanese context; the fourth Chapter tackles the reasons, processes, and consequences of governmental intervention in the business reporting of Lebanese telecom sector; and the thesis ends with the discussion and conclusions in Chapter five.

Chapter 2 Literature review on governmental intervention in the corporate reporting arena

2.1. Introduction

A comprehensive and extensive literature review was conducted in order to identify the papers of high influence and value on the academic discussion in government intervention in the corporate reporting arena.

The literature review was developed with special reference to the work of Nobes (1998, 2011); Baldwin and Cave (1996); Puxty & Willmot et al. (1987); Streeck & Schmitter (1985); Tinker (1984), Guthrie & Parker (1990) ; Patrizia Arnold (1990); Cooper & Sherer (1984); Majone (1996); Callon (1998); Latour (1987); Miller & Rose (2008); and Meyer & Rowan (1977).

The literature review was organized as follows: the first section proposes a descriptive analysis of different theoretical streams on government intervention in accounting and business reporting and the thesis describes the factors affecting the national accounting and reporting system and their functioning under the Country Model and the Process of Standardization; the second section of the literature review treats the theoretical background of government intervention under three different topics which are the public interest theories, the institutional theories, and the political economy theories. The final section discusses the gap in the literature on the government intervention in the reporting field in the Middle East countries, and the gap in the literature and studies dealing with the technical contents of government intervention in accounting and business reporting.

Therefore, this section provides a structured overview of prior research topics and findings and identifies gaps in the existing literature that may be addressed in future research.

2.2. Accounting, reporting, and the national context

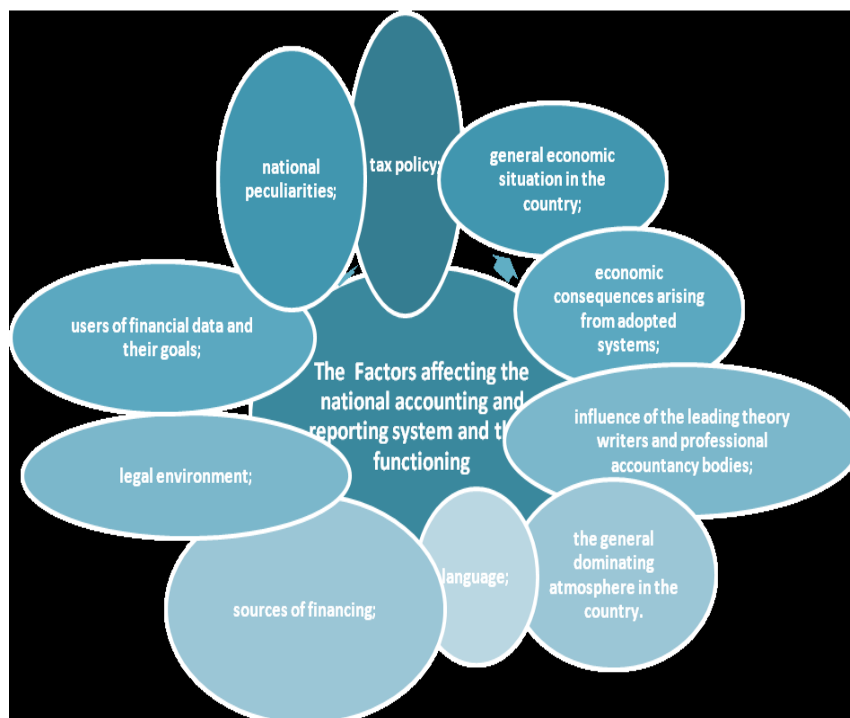
This section reviews the literatures developed with reference to the works of Nobes (1998, 2011), Hallen and Meek (2003), Streek and Scmitter (1985), Puxty, et al. (1987), Lenz, et al. (1998), Watrin (2001), Haller (1992), Eberhartinger (1999), Demski and

Christensen (2003), Walton (1993), Benz (2004), Heritier (2002), Kleemkamper and Witmer (2005), Decker (2002), Benner, et al. (2004).

The necessity of reporting arising from the need to report information that is understandable to all the stakeholders and comparable to the reporting data of other enterprises, and the growth of stock companies in the nineteenth century, was the driving factor for the change of national accounting system and especially in the reporting of financial and non-financial information.

Any national accounting system in the world is independent and is protecting the national interests of the country according to an Applying IFRS study called "Transfer of Education" (2010). Furthermore, the different factors that affect and define the peculiarities of a national accounting system can be summarized the in Table 2.1.

Table 2.1. - The factors affecting and defining the peculiarities of national accounting system



Source: Own elaboration based on IFRS study "Transfer of Education", 2010.

As it is illustrated in the Table 2.1, each country has a list of factors affecting the national accounting and reporting system that can be summarized as follows: 1) general economic situation, 2) legal environment, 3) sources of financing, 4) users of financial data and their goals, 5) language, 6) tax policy, 7) economic consequences arising from adopted systems, 8) influence of the leading theory writers and professional accountancy bodies, 9) national peculiarities, 10) the general dominating atmosphere in the country.

There are also other important influential and sometimes leading factors that should be taken into consideration when studying the contents of national accounting and national reporting standards and which can be summarized as the type of accounting information users that can be both physical entity and either a bank or governmental bodies, the copyright to the standards, the amount of physical and legal entities forming the source of business capital, the degree of involvement of investors in the management of this area of business, and the level of security market development.

It would be important to point out here in the literature that different reporting objectives are causing international differences in accounting and business reporting (Nobes, 1998). According to the same author, basic models have been established in which the major influential factors are expressed as the following model variables: 1) a country's culture, 2) strength of the system of external sources of funding, 3) types of business entities, 4) country's level of cultural independence, 5) financial reporting system.

The fact that an accounting country system is affected by the environment in which it operates doesn't in itself mean that we should have different business reporting objectives, but a country's accounting system is affected by a variety of historical, economic, socio-cultural (language), institutional, and other non-accounting factors. Therefore, these factors are influencing the development of country's accounting system and generating differences between different countries' reporting systems.

Viewed in this way, several comments on influential factors can be noted in the literature. For Sandagaran (2004), the intensity of differences in accounting at the international level depends upon the intensity of dissimilarities of individual factors between countries represented by a list of ten influential factors and stated that "it is not an exhaustive list": 1) Type of capital market, 2) Financial reporting system, 3) Types of business entities, 4) Legislative system, 5) Application degree of legislation, 6) Inflation level, 7) Political and economic relations with other countries, 8) Status of the accounting

profession, 9) Existence of a conceptual framework, 10) Quality of education in accounting. Many authors adopted this perspective by classifying the influential factors of country accounting system development (Choi and Mueller, 1992) as follows: 1) Legal system, 2) Political system, 3) Nature of ownership, 4) differences in the size and complexity of business entities, 5) Social climate, 6) Level of sophistication of administration and the financial community, 7) Level of legislative interference in the operations of entities, 8) Existence of specific accounting legislation, 9) Speed of business innovations, 10) Level of economic development, 11) Growth pattern of an economy, 12) Status of professional education and profession associations.

Following the same framework, Mueller et al. (1987) mentioned also other factors of influence as: 1) Relationships between business entities and sources of capital, 2) Political and economic relations with other countries, 3) Legal system, 4) Level of inflation, 5) Size and complexity of business entities, level of sophistication of business management and the financial community, and the general level of education. While these authors have pointed to the influential factors, which affect the country's accounting system intending to explain the differences in accounting and business reporting, Tinker (1985, p. 15) has illustrated that accounting is unable to measure the full reciprocity in exchange relations between corporations, and important social constituents such as the local community, shareholders, nations government and customers (Zambon, 2002).

Despite the criticism above, Nobes (1998, pp. 162-187) has theorized "culture" as one of the background factors leading to more direct causes of accounting differences (Zambon, 2002). Going back to the symbolic power of accounting (Burchell et al., 1980, pp. 5-27), and according to Zambon (2002) the major limitation in international literatures is that they have extensively focused on accounting as a technique and according to Zambon (2002), recent research has demonstrated that the twentieth century perception of accounting as a symbol of rationality has transformed it from a mere technical decision making aid, in to a device which occupies a central and direct role in the contemporary management of social and organizational life.

Based on the above classification of influential factors, as well as on factors that certain authors particularly emphasize, several influential factors have been singled out, selected,

and are explained in detail in the following. For that reason, the paper will focus only on some factors in relation with accounting and business reporting arena.

The literature in the study will tackle the mode of regulation in accounting as an influential factor in the case of accounting and business reporting development within the context of government intervention in the regulation of corporate disclosures.

The most fundamental approach to understanding modes of regulation in accounting (Streeck and Schmitter,1985; Puxty et al. 1987, pp. 273-291), has been through the use of the four - dimensional framework for the description of accounting regulation based on existing studies and changes in regulation over time (Haller 2003; Meek 2003). Within this context, accounting regulation is captured with four criteria within a country and could lead us to understand certain regulatory practices (for example within the Lebanese case study):

(1) the predominant uses of accounting,

(2) the extent of professional self-regulation,

(3) the legal backing of financial reporting, and

(4) the degree of internationalisation.

The predominant uses of accounting has been the calculation of distributable income (Leuz et al., 1998; Watrin, 2001) and taxes payable (Haller, 1992, p. 310; Eberhartinger 1999, pp. 97-119) – like the case of Germany, Japan and also Lebanon; while in UK and USA accounting's main function was seen as giving capital market participants (Demski and Christensen, 2003) a true and fair view of a company's economic situation (Walton 1993, pp. 49-58).

This criterion is informative about the roles financial accounting within any country because it considers the influences of tax rules and interferences of further legal restraints (Haller, 1992, pp. 23-310) and could be a valid reason to define the barriers for probable harmonization of the regulatory landscape and to explain and justify the purpose for regulatory intervention in financial reporting.

Furthermore, the literature shows that fulfilling one purpose prevents accounting from being able to fulfill the other to the same degree (Zhao et al., 2007, pp. 223-246).

The legal backing refers to the degree to which the public sector intervenes in accounting regulation. For instance, parliaments (setting accounting related laws), state agencies

(overseeing the accounting process) and courts (setting accounting related case law) might lead to a strong legal backing of accounting regulation.

The third dimension-criterion explains the extent of professional self-regulation and explains how accounting was predominantly seen as a technical issue, at best self-regulated by those directly concerned with preparing or testifying accounts.

According to Sikka and Willmott (1995, pp. 341-369), there will be some amount of state intervention into accounting regulation, and some amount of legal backing will be introduced for interventionist reasons if there is a concern in the public interest over whether or not allowing self-regulation to be the only form of regulation.

However, private actors typically will retain some role in accounting regulation (which might, however, vary over time (Olivier, 2001, pp. 603-624). The extent of professional self-regulation should, thus, be regarded as a distinguishing criterion when analyzing accounting regulation. As a result, this criterion, together with legal backing, is informative about the public private mix in accounting regulation (Puxty et al., 1987, pp. 273-291).

According to these authors, Public sector actors are typically parliaments (setting the respective law), state agencies, courts (which are important for the evolvement of litigation risk to appear) and – in some countries, such as Germany and Lebanon (Public accounting Law) – bodies under public law, while Private actors play a role in accounting regulation as first and foremost mandated or un-mandated private institutions and experts. Whilst law specifies many of these institutions, they do not belong to the state sector, as only private actors are involved. Typically, existing accounting regulation within a country is characterized by involving different combinations of public and private actors. This setting can be described by the notion of "governance", meaning that networks exist that combine both public and private actors (Benz 2004). In such networks "private actors may have independently engaged in self regulation, or a regulatory task may have been delegated to them by a public authority, or they may be regulating jointly with a public actor" (Héritier 2002).

The last dimensional criterion explains the degree of internationalization and how accounting was traditionally regulated at the national level and how international elements of regulation have been implemented. Some of these regulatory elements are rooted in the private sector, others in the public sector. Most remarkably, privately

organized international standard setters, such as the International Accounting Standards Board (IASB), have gained increasing relevance (Kleekämper and Kuhlewind 1997). The European Union, obviously belonging to the public sector, is also increasingly engaged in regulating financial reporting for its Member States (Brackney and Witmer, 2005, pp. 18-27). With standard-setting leaving the national arena, the public sector's task of intervening into accounting regulation may also be internationalized (Decker, 2002, pp. 256-272; Benner et al., 2004, pp. 191-212).

However, few studies investigate the outcomes by reforming accounting system whether the intended results like improving performance or accountability have been caused or not. Most researches have focused on changing process and its utility. Accordingly, in order to analyze the situation of an accounting regulation process within a country context, we must identify the principal actors interacting with each other in the public domain as we will see in the next Chapters and in the Lebanese country case. In addition, this will mean that we have to examine the intended outcomes or objectives of the reform.

As well known for example, the most wide-spread accounting systems worldwide GAAP, EU directives and IFRS refer to various standardization levels; GAAP are national standards used in the USA and GAAP are different for each country. EU directives are regional standards with the objective of harmonizing the national accounting systems of the EU member states and IFRS are provided for the purpose of harmonizing the accounting systems in societies worldwide.

The academic literature (Choi and Mueller (1992); Radebaugh et al. (2006); Belkaoui (1995); Nobes and Parker (2010)) offers a large number of possible reasons for international differences in accounting. According to these authors and their research findings, it can be explained by the influence of a single main factor which is: "how companies are financed?"

This factor has two dimensions, as shown in Table 2.2. (Nobes; 2011) and Table 2.3.

Table 2.2. –Financing Systems

Dominant investors	Strong credit	Strong equity
Insiders	I	III
Outsiders	II	IV

Source: (Nobes; 2011)

Table 2.3. –Financing Systems (Explanations)

Dominant investors	Strong credit	Strong equity
Insiders: Are investors (in equity or debt) who have long-term relationships with the company. They can appoint board members, or may have special access to information. Examples are family members (even in large listed companies, eg Fiat); banks (as big lenders or as major equity holders, eg Daimler); and governments (eg Renault).	System I credit/insiders is associated with several continental European countries in the 19th and 20th centuries.	System III equity/insiders, elements of which are seen in Japan.
Outsiders: Are the millions of shareholders who have small percentages of shares or listed debt. Included in this group are large shareholders (eg pension funds in the US or UK) as long as they have no privileged access to company information (because, for example, that would break insider-dealing laws in the country concerned).	System II credit/outsiders might be rare, but there is a vast amount of listed debt on the New York Stock Exchange.	System IV equity/outsiders is the full-blown capitalism of New York and London. *China has moved towards System IV but the State (an insider) still holds much equity.*

Source: Own elaboration based on Nobes (2011).

According to Nobes (2011), it is very important to understand the fact that countries might have more than one of the four systems for example, System IV (equity/outsiders) for big companies and System I (credit/insiders) for small ones. This report concentrates on the bulk of a country's economic activity; for the US and the UK, for example, that means listed companies. And also, countries change over time, but accounting might change more slowly and will be influenced by the past.

In addition, there are some relevant points to consider when studying a country or a sector in a country dominated by equity/outsiders (System IV), there will be a demand for detailed, audited, frequent, published accounting information.

The conceptual frameworks of the IASB and of standard setters in Australia, Canada, the UK and the US state that the purpose of financial reporting is primarily to enable investors to make economic decisions. This is clearly a System IV orientation according to the same author.

While studying a country or a sector of a country dominated by credit/insiders (System I), there will be no such demand for investor-oriented reporting. For such countries, in the absence of an outsider purpose, accounting will serve its traditional purposes: calculating prudently distributable profit and calculating taxable income. System I purposes are legal in nature and relate to single entities; therefore the detail of accounting tends to be controlled by the State and will concentrate on unconsolidated statements. By contrast, in equity/outsider (System IV) countries, the detail of accounting will be controlled by bodies connected to accountants or stock markets.

Businesses within different accounting systems basically rely on earned capital and their external sources of funding differ. Therefore, accounting systems can be characterized as those whose main source of funding is either the stock market (equity-oriented) or a bank (debt-oriented), depending on whether funds are raised by issuing securities or through credit loans from financial institutions.

In such a context, a capital market impacts on a country's financial reporting system and it depends on who are the investors or creditors, who are the information users and what are their information needs, as well as how many of them there are and what is their association to business entities. Consequently, financial reports and the accounting information are a source of data on the performance of businesses regardless of the financing system.

We can understand that the first variable in the model developed by Nobes (2011) is a country's type of legal and institutional culture, and the second is the strength of its equity-outsider financing.

2.3. Government intervention in accounting and business reporting

This section presents the results of a literature review of government intervention in accounting and business reporting. The section is structured as follows: the first subsection treats the theoretical background of government intervention under three different topics which are the followings: 1) the public interest theories; 2) the institutional theories; 3) the political economy theories. The section proposes a descriptive analysis of different literatures on government intervention in accounting and business reporting and subsequently, the second subsection discusses the gap in the literature review on government intervention in the Middle East countries and focuses on the fact that studies were most prepared in accounting rather than in business reporting. As a final point, the third section identifies the gaps in the literature review dealing with the technical contents of government intervention in accounting and business reporting.
In conclusion, the literature will evidence the existence of these three gaps and will set the tone for what is coming in the case of Lebanon; the literatures will help to understand better the topic of my research of government intervention in business reporting and so, I can easily prove what I have add to that literatures in my thesis.

2.3.1. Theoretical background and research streams

The choice of literatures in the thesis is based on the rationale behind a state intervention. Practically, government is trying to justify his intended action by means of public interest theory and other different reasons that relatively clarify and justify their actions and interventions in accounting and business reporting. In addition, the thesis will try to understand and translate the rational followed in the Lebanese case and which are reflected in the literatures selected.
The different theories used in the research on government intervention in accounting and business reporting are considered to be conceptual and influential factors in relation with the topic of my thesis and presented as follows:

2.3.1.a. The public interest theories

Regulation under the public interest theory is seen as shaped by the notion of public interest. The public interest is a concept which defines the theory as the interest of individuals promoted by the free market in which there is exchange of free goods and services with no market distortions (James, 2000).

This theory of economic regulation is rooted in perception that government must interfere to regulate markets in instances when markets are unable to regulate themselves. According to public interest theory, government intervention in regulation is the instrument for overcoming the disadvantages of imperfect competition, unbalanced market operation, missing markets and undesirable market results.

The central issue in the public interest arguments is whether or not there are some flaws in an information market / some “market failures”; and these so-called "market failures" occur when the price mechanism that regulates supply and demand breaks down, and consequently force government to take action. This would lead to the conclusion that governmental regulation is a desirable solution to avoid such flaws and secure an optimal level of production of information (Beaver, 1989, pp. 71-111). According to Watts and Zimmerman (1986), these market failures or externalities consist of the public good problem, information asymmetry, and the speculation problem. Going to the notion of natural monopolies and external costs or "externalities", these are the most prominent types of market failure and natural monopolies occur when the fixed costs of supplying a good are so great that it makes sense for only one firm to supply that good. For example, public utilities (i.e. the delivery of telecom, electricity or water/wastewater services to your home) usually require so much money to build the necessary infrastructure (i.e. to erect utility poles and lay telecom pipelines) that no company would take on the task without confidence that it would control a sizeable portion of the market. According to Stigler (1971, pp. 3-21), Peltzman (1976, pp. 211-240) and Becker (1983, pp. 371-400), the problem is the monopoly businesses that arise from this situation that tend to use their market power in ways that can be highly detrimental to the community at large and this is where governmental regulation becomes important. It is very important to understand these authors description for externalities: “externalities occur when the costs or benefits

of producing a good or service are not fully incorporated into the price"[37]. In this view, these sorts of market failures, along with the general need for mechanisms of regular public disclosure by business, make regulation critical if the public interest is to be protected and regulation results from the need to protect the public from the negative impacts of such market failures and other harmful business behavior.

Public good concept is central to the thesis due to the fact that the case study is about a public utility service (telecom services); and for that reason, we need to describe and understand the nature of a public good service.

Public goods possess non-rival benefits when consumption by one user does not diminish the benefits still available to others and non-excludable benefits which means that once the public good is provided, benefits are non-excludable if they are received by payers and non-payers alike (UNIDO, 2008). While economists define the criteria of a public good as (Ramsay, 1984) they are: 1) non rivalrous in consumption – that is consumption by one person does not preclude future consumption by another person; 2) they are non excludable – one person cannot prevent another person from consuming the good; 3) they are indivisible – they cannot be split into discrete units.

View in this manner, economists suggests that goods with these characteristics will be under-supplied by the market. Furthermore, due to the fact that market alone is unable to ensure public goods, efficient provision and some form of collective action becomes necessary to supply them, through coordination, cooperation or coercion within a particular country directed through the available institutional framework, with the nation state at the centre. Therefore, regulation and government intervention at this point is explained as efforts to correct distortions or "market failures" which prevent markets from operating in the public interest and is seen as a desirable activity in these situations (Breyer, 1982; Noll, 1989, pp. 1254-1287; Ogus, 1994). In addition, government intervention is seen as designing and operating regulatory systems to correct these failures and improve the general well-being.

More extensive discussions have been provided in the literature under the public interest theory where regulatory or government initiatives and the official explanation for such initiatives implicitly and explicitly reflect a public interest justification (James, 2000).

[37] Economists often cite air pollution as a cost incurred by almost any sort of economic activity, but which is often ignored when determining the prices. When the polluting activity is very concentrated, as in a manufacturing plant, the costs to the surrounding community can be considerable. Yet, without governmental regulation there is nothing that compels the plant to either minimize the environmental impact or otherwise compensate the community for bearing that part of the cost of production.

Therefore, any initiatives or government intervention in accounting and business reporting should be justified in the same way as mentioned before and might also reflect the public interest theory.

The public interest justification for regulation inside government should bring more clarification on how regulation and intervention might be expected to further public welfare.

Hood (1996, pp. 15, 3, 207-230) has adapted a framework where three main alternatives to regulation about how to control and coordinate the delivery of public services. These alternatives appear in many discussions and are divided as follows: 1) by self-control in which public bodies act alone or in a peer group with freedom from external oversight; 2) using the forces of competition in quasi-markets to structure behaviour and resource allocation; 3) by direct management involving hierarchical control of subordinates within an integrated organization with common staff and procedures. But according to Hood (1996), these forms will fail under certain circumstances, and regulation will improve public welfare.

Beyond the framework of alternatives to regulation, we can argue that a public interest theory account of regulation inside government might appear *paradoxical* (James, 2000); this contradiction is well perceived because if legislators and regulators designing and operating regulator systems are attempting to further the public interest then all public officials might be expected to do the same.

Another school of thought in relation to regulation and closely to “public choice theory” is what Ogus (p. 59) has summarized: “there is an assumption that behavior in the political arena is, in its essence, no different from behavior in the market, the individual acting in both contexts rationally to maximize his or her utility” (Baldwin & Cave, 1999). Despite the fact that a large number of literatures show quite convincingly that regulatory regimes may be ‘misaligned’ for various reasons, causing inefficiency, perverse behaviors and unintended outcomes; and this was justified (in the literatures) by the fact that different regulatory regimes develop according to a variety of pressures.

Hood et al., (2001) have been analyzing these pressures and characteristics of the regulatory state. They sought to answer the question why regulatory regimes varied, and why some seemed poorly aligned with the arrangements which might have been expected

based on an objective (or normative) 'public interest' theory of the regulatory state. Going back to the public interest theories, and according to the same authors, the theory is typically founded in arguments about market failures, and the methods by which the state can correct can be also generalized following Baldwin and Cave (1999) approach to include both market and non-market failures[38].

According to Domas (2003, pp. 165-174), the public interest theory of regulation explains in general terms that regulation seeks the protection and benefit of the public at large. In addition, his paper contends that the Stigler's characterization of the public interest theory has similarities with the welfare economics rationale for regulation. Nevertheless, the similarities do not prove or deny a connection between both the concepts of public interest and the welfare economics rationale for regulation. The key point for this research is that the public interest theory cannot be viewed in isolation from the context of the regulatory state as a whole.

It is also important to know that the microeconomic literature teaches the existence of two contending theories of regulation: the first is Public Interest Theory, which explains in general terms that regulation seeks the protection and benefit of the public at large; the second is the Chicago theory that suggests that regulation does not protect the public at large but only the interests of groups.

Posner (1974, pp. 335-358) is a fellow of the *Chicago School*, and he was the first academic to attribute the traditional rationale for regulation at the time to a theory based on the concept of public interest. Also, he has recognized two arguments commonly used to support regulation: 1) that markets were prone to fail, and 2) that regulation was costless (zero transaction costs). Three years before, Stigler (1971, pp. 3-21) had initiated a new theory explaining regulation: the Chicago theory known as well as the Economic Theory of Regulation. The arguments individualized by Posner bear similarities with the idea of market failure in welfare economics. Authors like Joskow and Noll (1981, pp. 1-66), Viscusi et al., (1995), Aranson (1990, pp. 247-286), Den Hertog and Siegers (1995) have identified the public interest theory as part of welfare economics. In summary, the public interest theory has two acceptable concepts. The first concept which was held by

[38] For example, 'Conduct failures' a better description of "Inequitable distributional outcomes" resulting from the market place can be incorporated as a form of 'market failure' because the market has not delivered an outcome acceptable to the community, and thereby the regulatory state seeks to correct for it by requiring equal opportunities for the disabled or by lump sum transfers of income through social security and welfare systems.

Stigler (1971) and Posner (1974) explains the regulation as seeking the protection and benefit of the public at large; while the second concept developed by academics defines the theory as a system of ideas which proposes that when market fails economic regulation should be imposed in order to maximize social welfare.

Posner's description refers to welfare economics and simplifies welfare economics and its argument in favor of regulation. According to some studies and researches, it remains unclear how he connects welfare economics with public interest and subsequent works arguably did not corrected Posner's approach. Nevertheless, some authors believe that despite the criticisms suffered by the theory, it has survived. This apparent inaccurate description and arguments leave the so-called Public Interest Theory exposed to open criticism.

2.3.1.b. The institutional theories

This section deals with the literature on how accounting and reporting practices are conceived under the institutional theory. The evolution of accounting goes on at a more macro sociological level than is commonly assumed" and that accounting rules can be considered "not as features of particular organizations, but as properties of institutional domains, national societies, or now the evolving world" (Meyer, 1986, pp.348, 354).

Institutional theory attends to the deeper and more resilient aspects of social structure. It considers the processes by which structures, including schemes, rules, norms, and routines, become established as authoritative guidelines for social behavior. It inquires into how these elements are created, diffused, adopted, and adapted over space and time; and how they fall into decline and disuse (Scott, 2004, p. 2).

According to Hopwood and Miller (1994), accounting has come to be regarded as a social and institutional practice, one that is intrinsic and constitutive of social relations, rather than derivative or secondary. Moreover, Hopwood and Miller (1994, p.20) has argued that we have to move beyond the boundaries of the organization and examine the social and institutional practice of accounting if we are to understand fully how particular ways of accounting have emerged and why such significance is accorded them. The role played by accounting in shaping organizational activities and social interaction was also addressed by Hopwood (1990, pp. 7-9-17), who argued that accounting "can influence

perceptions, change language and infuse dialogue, thereby permeating the ways in which priorities, concerns and worries, and new possibilities for action are expressed". From such a perspective, attention has been directed to the ways in which accounting exerts an influence on, and in turn is influenced by a multiplicity of agents, agencies, and institutions. The concern with accounting as a social and institutional practice emerged in large part within the discipline of accounting itself and accounting practices had been studied by a number of social scientists since at least the early 1950s. But according to the same source, these pioneering studies remained relatively neglected by researchers interested in analyzing how accounting operated in particular organizational settings. As late as 1978, Hopwood (1978, p. 3-13) has argued that: "even in cases where accounting has been studied in its organizational context, emphasis still has been placed on gaining comparatively static understanding of the more individual, or at the most group, aspects of the process". For example, Budgeting was a key focus of accounting research during 1970s, and tended according to Hopwood (1978) to be examined without consideration of its social and organizational aspects. Furthermore, studies in participation in budgeting process had a largely conception of the relationship between participation and managerial attitudes and styles. Therefore, there was little attempt to analyze the organizational dynamics by which budgeting was interrelated with other organizational control structures and strategies. Additionally, this appeal for a more dynamic appreciation of accounting in its organizational context or in the context in which it was located was given a wider social science setting and it was important that accounting be situated in its social and as well as its organizational context. More attention firmly and explicitly was given later to the social and institutional contexts in which accounting operated.

The notion that accounting was a part of the institutionalized and rationalized myth structure of a society contributed to a significant broadening of the agenda of accounting research. Consequently, and according to the same author Hopwood, it helped reinforce and elaborate the already emerging shift in focus away from accounting viewed as a functional and neutral response to organizational imperatives. Mezias (1990, pp. 431-457) studied the factors that explain the financial reporting used by large for profit organizations by adopting an interorganizational level of analysis; consequently, he has argued that a study of financial reporting should focus on entities in the institutional environment of firms, rather than on the focal firms themselves and reinforcing the

importance of analyzing the effects of institutional environment on accounting systems and other organizational practices. For institutional theorists, the point was to address those pressures within the environment that led organizations to incorporate institutionalized practices to establish and enhance legitimacy. In order to understand accounting practices from this perspective, we should trace the causal processes that linked accounting with its institutional environment and this had been and can be the object of research in itself.

In this literature, accounting will be characterized and analyzed under one of a multiplicity of agendas/themes of literatures. One agenda in this literature can be termed ethnography of accounting practices", to indicate a concern with accounting research that pays particular attention to the meanings and perceptions of those actors who develop and use accounting techniques or systems in particular settings. Such mode of research identified the need to commence from real world situations which goes beyond descriptive accounts of accounting systems and studies the conditions and consequences of actual accounting practices in specific organizations.

There were suggestions to that research should focus on the symbolic as distinct from the technical uses of accounting because (Miller and Hopwood, 1994, pp. 1-39) the symbolic roles of accounting help to define the real, and to give legitimacy to existing practices, then organizational life can in turn be modified in the name of symbolic roles. These calls for a greater appreciation of the broader social, institutional and ideological factors and context of accounting practice had contributed to the rise of accounting.

According to the same authors, agencies of the modern world of accounting practices appeal as demonstrating always the rational nature of organizational processes, and for that reason, accounting research should address institutional pressures that arose from (appeals) bodies such as the State, Professional Institutions, and the Media and from notions such as "efficiency", "effectiveness", "value for money", etc.

Studying the social and institutional dimensions of accounting were also the results of intellectual agendas coming from different disciplines such as sociology, and political science (Miller and Hopwood, 1994).

Presumptions in these researches started by studying discrete practices, events, and processes needed to be conducted in relation to the changing nature of social institutions, structures, roles, and processes.

Hopwood (1981) argued that “accounting can never be seen in purely organizational terms” and this paradox was not accidental according to him. But it was a way of highlighting the complex of pressures, demands, and influences that operate on accounting practices; of signaling how much further accounting research are needed to develop if it was to address such factors; and of registering the severe limitations resulting from continuing with an exclusively intraorganizational approach to the study of accounting (to limit this arbitrarily and mistakenly the terrain of accounting research).

Institutional theorists depicted accounting as a key element in the “myth structure” of rationalized societies (Meyer and Rowan, 1977, pp. 340-363). The myths for accountants (apart from its efficacy) were placed on a similar level to the myths of the doctor, and other rationalized professions. Consequently, the myths of accountants were held to become part of the taken for granted means to accomplish organizational ends. Institutional theorists (Meyer and Rowan, 1977) argued that formal organizations are driven to incorporate the practices and procedures defined by prevailing concepts “of what is rational” in order to increase their legitimacy and their survival prospects. For that reason, all the conventions of modern accounting, the labels of organizational chart, and the vocabularies or dialect of personnel experts were identified as key mechanisms (process) for isomorphism between environmental institutions and organizational practices” (Miller and Hopwood, 1994). By doing so, they transform the formal structures of organizations in line with powerful institutional rules; and in return these rules come to biding on particular organizations and the formal structures of organizations reflects the myths of their institutional environments, rather than the demands of their work activities.

From an institutional perspective, professions individually were identified as one aspect of this process because the profession provides rules, and procedures. While taking the profession a system, it was seen as highly institutionalized (Miller and Hopwood, 1994) because we have legal obligations, and activities were allocated to the appropriate professional domain.

Finally, accounting could not and should not be studied as an organizational practice in isolation from the wider social and institutional context in which it operated whether studying accounting in action, analyzing the history of changing of accounting forms, or conventionally analyzing the contingency theory (Hopwood, 1983, pp. 287-305).

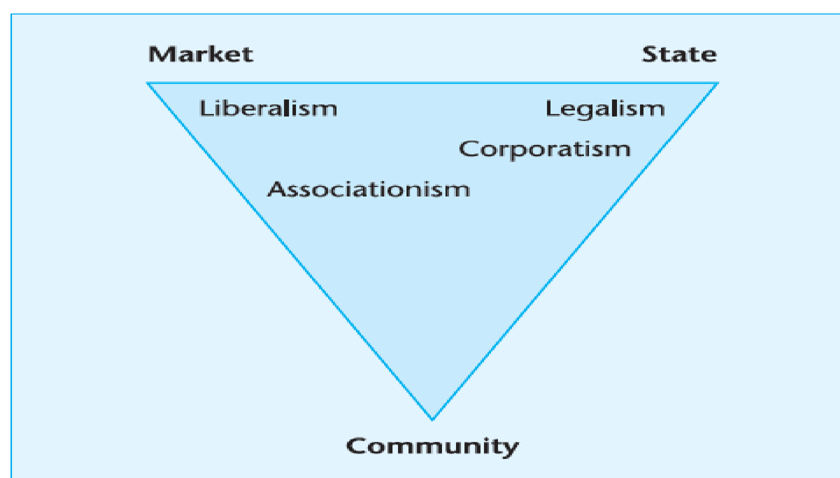
2.3.1.c. The political economy theories

This section takes a detailed look at the political economy approach from different perspectives with reference to the following authors: Puxty et al., (1987); Streek and Schmitter (1985); Tinker (1984); Guthrie and Parker (1990); Patrizia Arnold (1990); Parsons (1956, 1960); Shocker and Sethi (1974); Dowling and Pfeffer (1975); Wilkinson (1983); Woodward et al. (1996); Ramanathan's (1976); Buhr (1998); Cooper & Sherer (1984).

The political economy approach of accounting practices means drawing attention to the fundamental interrelationship between political and economic forces in society and also to the conflicting political and economic interests at stake in accounting (Miller and Hopewood, 1994).

The analysis of regulation by Puxty et al., (1987) can also be labeled as taking a political economic approach (which is different from Tinkers). Puxty et al. have turned to broader theories of the state in order to assess the accounting regulation in his four country case study because he thinks that "the institutions and process of accounting regulation in different nation states cannot be understood independently of the historical and political economic contexts of their emergence and development". Puxty et al. (1987) use the work of Streek and Schmitter (1985) to suggest that there are three limiting and ideal cases of accounting regulation through the "Market", the "State", and the "Community" as follows in the Table 2.4.

Table 2.4. – Regulation of financial reporting



Source: Adapted from Puxty *et al*. (1987, pp. 283).

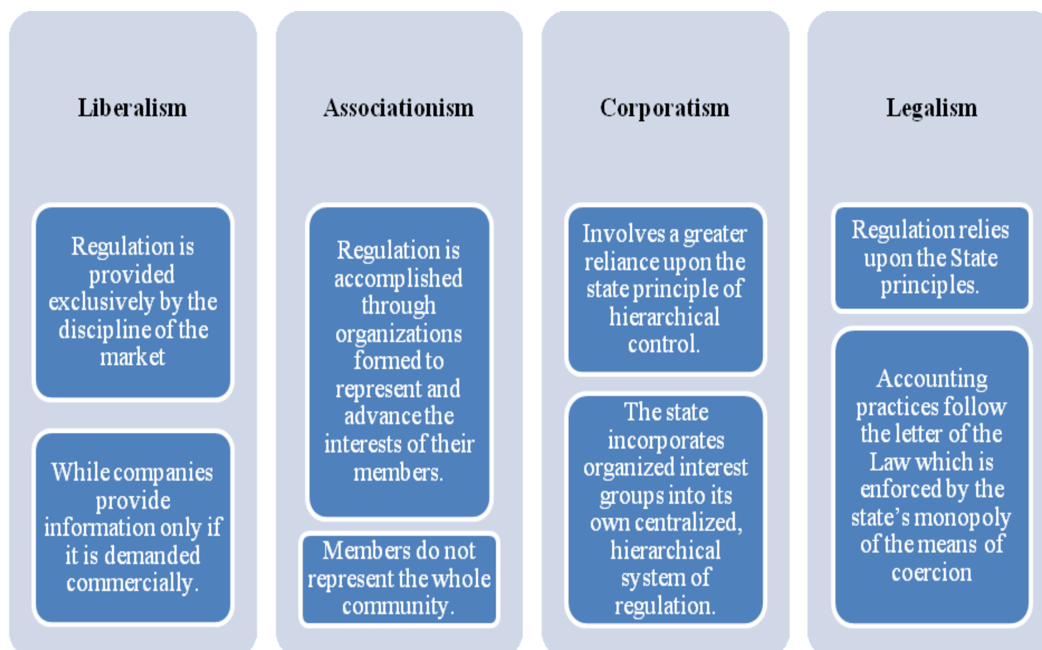
According to Puxty (1987), companies will select their own rules and will be influenced only by pressures from the capital market if the process of accounting regulation is left entirely to market forces. Watts and Zimmerman (1978, pp. 112-134; and 1986) explain that companies will publish voluntary accounting information and will subject themselves to audit only in the position of the "unregulated economy" – left side of the triangle (the case of Britain and in the United States before the establishment of the SEC in the nineteenth century).
The second case describes the mode of accounting regulation which is left entirely in the hand of the State. The state decrees practices to be followed and provides an enforcement mechanism. The third ideal case is the emergence of rules through the 'spontaneous solidarity' of the community.

Within these three extremes, Puxty *et al.* usefully distinguish what they and others term 'liberalism', 'associationism', 'corporatism' and 'legalism'.

The Table 2.4 shows that in accounting regulation, the market and the state have predominated over the community.

Puxty et al. explain ***the regulation procedure of accounting as a process matter*** and distinguish between 4 modes "liberalism, associationism, corporatism, and legalism" as follows in the Table 2.5.

Table 2.5. – The regulation procedure of accounting as a process matter



Source: Own elaboration and based on Puxty et al. (1987).

The four modes of Puxty *et al.* form a continuum; at one extreme is liberalism, whereby regulation is provided exclusively by the discipline of the market, while companies provide information only if it is demanded commercially; at the other is legalism, which relies upon the unreserved application of state principles. Accounting practice is expected to follow the letter of the law, which is enforced by the state's monopoly of the means of coercion. Within these two extremes are associationism and corporatism, both of which combine liberalism and legalism with a small dose of community influence. In associationism, regulation is accomplished through the development of organizations that are formed to represent and advance the interests of their members. These members form, of course, part of the community but do not represent it as a whole. Corporatism involves a greater reliance upon the state principle of hierarchical control and the state here does not simply license the existence of organized interest groups but incorporates them into its own centralized, hierarchical system of regulation. The basic difference between corporatism and associationism is the extent to which the state 'leans' on interest groupings to achieve public (i.e. state), as contrasted with private (i.e. market), purposes.

In a free accounting information market (liberalism), the government should not be involved in specifying contracts, the contents or volume of accounting information to be produced and disclosed. Views in this way, modes of regulation of accounting practices have been held to vary according to the institutional and political structures in particular countries (Puxty et al., 1987).

Political economy, in its broadest sense, refers to the interplay between politics and economics. As a topic, political economy is about the relationship between states and markets. As a method, it stands for the use of approaches developed within economics to analyze politics (classical/neoclassical approach to political economy can be identified). Capitalism[39] is a social system in which there is interplay between the political and economic systems. In neo-classical theory it is assumed that the political system is shaped by economic interests and there are some "radical" theories which reject the neo-classical assumption and some of these are discussed by Tinker (1984, pp. 3-5). Tinker has challenged the neo-classical economic approach and stated that "it is inadequate to characterize or typify the need for regulation". In his perspective, such economics is reductionist in that its advocates hold it is universalistic – it applies in all places at all times. Also, he claimed to include additional social factors in any analysis of regulation. Through the work of Lindblom, Tinker argues that there are many social inequalities among social classes which arise from the degree of access to and use of property and reliance on the market place. And regulation is necessary here to move towards balancing some of the inequalities and, in effect, ensure the survival of capitalism. Applying regulation in this situation serves "to protect the general or collective interests of capital and the requirements of the capital accumulation process" (Tinker, p 66).

Tinker (1980) has recognized the political economy of accounting by stating that "political economy relies on the social relations of production" which is an analysis of the division of power between interest groups in a society and the institutional processes through which interests may be advanced. Although, Neimark and Tinker (1986, pp. 369-395) have commented upon the social dimension of power and control and its dominant patterns of power and appropriation, they have been supported by Cooper and Scherer's

[39] Capitalism is a system of generalized commodity production in which wealth is owned privately and economic life is organized according to market principles. Enterprise capitalism, social capitalism and state capitalism, nevertheless, differ in relation to the balance within them between the market and the state; Andrew Heywood, Politics, 4th edition; Url: http://www.palgrave.com/foundations/heywood/students/chapter/ch06.html

points of view (1984) in their argument that "the study of accounting should recognize the power and conflict which exists in society", such that the effects of accounting reports on the distribution of income, wealth and power in society should be a focus of enquiry.

Critical description as well as interpretive approaches to the issue of accounting regulation was adopted. For example, Tinker (1984) does not view accounting regulation as a process where public, private or group interests are promoted but primarily as a vindication/justification of the capitalist system (existence) and the continuation of income, wealth and class inequalities related to capitalist democracies. Hence, when he argues that accounting regulation "..serves to protect the general or collective interests of capital and the requirements of the capital accumulation process" (1984, p. 66), he also advocates that the social factors and consequences of any accounting regulation should be part of the analysis. On the other side, Puxty et al. (1987) propose an interpretive framework to help understand the institutions and processes of accounting regulation in advanced capitalist societies and to highlight how these affect the content and consequences of accounting policies and practices. Underlying this framework is the assumption that the provision of accounting information is a political process and that accounting is primarily a social practice. Furthermore, the way a nation-state approaches regulation is not independent of the historical and political-economic contexts of the country's emergence and development (1987, p. 275). According to Guthrie and Parker (1990, pp. 159-176), this would include an appreciation of the material and ideological forces that have been at play in the country.

In addition, the political economy perspective perceives accounting reports as social, political, and economic documents. The political economy perspective here is characterized as viewing social disclosures as a proactive attempt by corporations to "portray its own views of its social and political constituency" and serving as a "tool for constructing sustaining and legitimizing economic and political arrangements, institutions and ideological themes which contribute to the corporation's private interests". Firms proactively provide information from their perspective to set and shape the agenda of debate, and to mediate, suppress, mystify and transform the conflict (Guthrie & Parker, 1990). For that reason, accounting reports are a means to construct, sustain, and legitimize the economic and political arrangements in the private interests of

the firm (Guthrie & Parker, 1990). It takes the view that there are two opposing forces or principles that create tension in relations with the constituents in the arrangement (Buhr, 1998, pp. 163-190). Such disclosures can be used by a corporation to define itself and to project its beliefs, norms, values, and perception (Cooper & Sherer, 1984, pp. 207-232). And these reports emerge from political processes and reflect corporate power and the impact of government and state regulation or pressure according to Guthrie and Parker (1990). While accounting reports may provide indications of corporate social power and social efficiency of resource usage, they do not constitute neutral documents (that some report producers suggest). But, instead they are a product of interchange between the corporation and its environment as they attempt to mediate and accommodate a variety of sectional interests.

Guthrie and Parker's conclusions (1990) support the political economy perspective as theoretical basis for explaining corporate social disclosures. The question is how to explain the importance of regulation in social disclosure practice? Their political economy perspective analysis suffers according to Arnold (1990, pp. 177-181) from a failure to address the opposing political theories that differentiate the user utility and political economy perspectives. They characterized the political economy perspective as one which views social disclosures primarily as an ideological tool for legitimizing corporate interests, and consequently, understate its potential to explain the role of regulation in disclosure practice. In addition, they use a reactive/ proactive dichotomy to distinguish between the user utility and political economy perspective. They categorize the user utility perspective as one which views social disclosures as a reactive response to social pressures. While political economy perspective is perceived as one which views social disclosures as a proactive attempt by corporations to set the agenda and to portray the social, political, and economic world on their own term. According to Arnold (1990), the potential for the political economy approach is greater than user utility approach because the political economy perspective has great deal to say about the interplay between economics and the politics of regulation. Also, its potential to explain the role of regulation in corporate disclosure practice can be illustrated by examining the political theories of the state that form the basis of user utility and political economy analysis (Tinker, 1984).

Guthrie and Parker (1989, pp. 343-352) suggested a new line of thinking, wherein they visualize political economy of accounting as providing a substitute to previously articulated arguments for organizational legitimacy in explaining corporate social responsibility disclosures. Thus, corporate social reporting represent a reactive response to societal demands and consequently the basic assumption is that business operates via a social contract with society, and has to justify its sustained survival by proving to society that it is doing the 'right' things (Parsons, 1956, 1960; Shocker and Sethi, 1974; Dowling and Pfeffer, 1975; Wilkinson, 1983; Woodward et al., 1996).

Under user utility perspective, corporations are seen as making social disclosures in order to "act consistently with widely shared social priorities" or "to respond to demand for social impact information from interested groups". The user utility literature is founded on pluralist political theory and the notion that regulation serves the public interest (Ramanathan, 1976, pp. 516-528) which goes well with the first theory in the previous section.

Guthrie and Parker (1990) interpreted the existence of social disclosure regulations as support for the user utility perspective. They failed (Arnold, 1990) to acknowledge that, without implicit acceptance of pluralist political theory, an empirical correlation between regulation and social disclosure doesn't imply that disclosure is a response to public demands.

The user utility perspective restricts us to a conceptualization of the state as neutral market place and abandons questions about social disclosure regulation to the domain of the invisible hand (Arnold, 1990). For that reason, the thesis will simply rely on the political economy approach because the relative advantage of the political economy perspective lies in its potential to invite further study of the political process, institutions, and structures that shape corporate social disclosure practice. Arnold raised a question which can be today experimented: "To what extent has dominant control of the accounting system regulatory apparatus been contested and challenged?"

Moreover, the political economy approach takes the view that there are opposing forces or principles that create tension in social relations (Buhr, 1998). In the area of corporate reporting, such tension can manifest due to the size of the firm, industry sector, ownership structure (share ownership or/and number of shareholders), ownership type if

it is a foreign or local entity, and difference between the market value and the net book value of the firm. In addition, accounting information is used to support those groups who are currently powerful in the society (Cooper, 1980, pp. 161-166; Cooper & Sherer, 1984, pp. 207-232).

This section has examined the development of political economy theory in order to establish its critical features, thereby to establish the credentials for a political economy of government intervention in accounting and business reporting. From that examination, it has been possible to understand and consider the fundamentals to rationalizing the use of a political economy of government intervention in accounting and business reporting.

2.3.2. Government intervention in accounting and business reporting in the Middle East countries

In this section, the review deals with the (Middle East countries') government intervention in accounting and business reporting. More precisely, the paragraph will reveal a severe dearth of literature statistics[40] and research on government intervention in accouting and business reporting hindering the formulation of evidence based policies and targeted support. The Middle East countries involved in the research will cover Lebanon, and Jordan.

In order to study the stituation of accounting and reporting in lebanon, we need to understand some facts in Lebanon. The lebanese Central Administration for Statistics (CAS) worked to improve the availability and quality of national accounts, trade data and social statistics, and, with the support of the EU, studied the feasibility of setting up a business register. The CAS continued to suffer from a chronic lack of resources, but is committed to working with the EU now.

An overview on the major on-line libraries for the LACPA and the Lebanese Financial Institute, and lebanese universities reveal the lack in publication and even the absence of literatures that are relative to government intervention in accounting and business reporting. The following books, articles, and thesis constitute an example of some

[40] The Central Administration for Statistics (CAS) worked to improve the availability and quality of national accounts, trade data and social statistics, and, with the support of the EU, studied the feasibility of setting up a business register. The Statistical Master Plan was being updated thanks to World Bank grant. The CAS continued to suffer from a chronic lack of resources, but is committed to working with the EU;European Commission, Joint Satff Working Document; 20/03/2013, Brussels.

lebanese literatures in the lebanese accounting, fiscal system and its development and they are presented as follows in Table 2.6.

Table 2.6. – Various lebanese literatures in Lebanon data base

Authors	Titles
(E. Menassa; 2007)	The case for accounting regulation: a theoretical approach.
(Camille Siffri; 2004)	Second Middle East and North African Forum on Corporate Governance and International Auditing Standards in Lebanon; PricewaterhouseCoopers, 2009.
(Farhat F. ; 1985)	L'impot au service du developpment du Liban.
(Himadeh R., 1961)	The fiscal system of Lebanon.
(Jabbour F., 1982)	L'imposition des benefices realisees par les societes libanaises provenant de l'etranger.
(K.AbdelRaouf, 1986)	التشريع الضريبي ضرائب الدخل
(H.AbdelKader, 1972)	الضريبة على الارباح التجارية و الصناعية و تطبيقاتها العلمية
(S. AbdelHassan, 1977)	الوجيز في الضرائب و الرسوم اللبنانية
(M. Chiha, 1986)	التشريع الضريبي – ضرائب الدخل
Other national or international Private or Public institution.	EU: European Neighbourhood Policy: Lebanon Progress Report 2008 (April 2009) http://ec.europa.eu/world/enp/pdf/progress2009/sec09_518_en.pdf EU-Lebanon Action Plan (January 2007) http://ec.europa.eu/world/enp/pdf/lebanon_enp_ap_final_en.pdf Strategy Paper for 2007–2013 and National Indicative Programme for 2007-2010 http://ec.europa.eu/world/enp/pdf/country/enpi_csp_nip_lebanon_en.pdf National Indicative Programme for 2005-2006 (June 2004) http://ec.europa.eu/external_relations/lebanon/csp/nip_05_06_en.pdf ENP Country Report on Lebanon (March 2005) http://ec.europa.eu/comm/world/enp/pdf/country/lebanon_country_report_2005_en.pdf EU – Lebanon Association Agreement (April 2002, entered into force in April 2006) http://ec.europa.eu/external_relations/lebanon/docs/euro_mediterranean_agreement_en.pdf IMF: Country Report No 09/131: Lebanon: 2009 Article IV Consultation and Assessment of Performance Under the Program Supported by Emergency Post-Conflict Assistance (April 2009) www.imf.org/external/pubs/cat/longres.cfm?sk=22897.0 Country Report No 07/382 — Staff Report for 2007 (Article IV Consultation, December 2007) www.imf.org/external/pubs/ft/scr/2007/cr07382.pdf

	Country Report No 05/158 — Report on Observance of Standards and Codes — Fiscal Transparency Module (May 2005) www.imf.org/external/pubs/ft/scr/2005/cr05158.pdf Lebanese Government: Recovery, Reconstruction and Reform (January 2007) www.pcm.gov.lb/NR/rdonlyres/4D817E6A-39C8-4F26-AF27-C8C830E29F5/0/paris3En.doc Millennium Development Goal Report (September 2003) www.undg.org/archive_docs/3344-Lebanon_MDG_Report_-_English.pdf National e-Strategy (October 2003) www.e-gateway.gov.lb/EN/Main/index.asp?

Source: Own elaboration based on World Bank Enterprise Surveys, OECD articles, IMF reports and databases (Yearly or often), Ministry of Economy and Trade, Ministry of Finance, United Nations Educational, Scientific and Cultural Organization (UNESCO), United Nations-Economic and Social Commission for Western Asia (ESCWA), EU Commission Delegation in Lebanon, UN system in Lebanon, UNIDO — UN Industrial Development Organization.

Based on International Monetary Fund Staff Report for Lebanon in 2010, the IMF recommended to "further improving the coverage, quality, and timeliness of economic statistics, as data deficiencies still hamper surveillance and policy development".

According to the Lebanese situation in accounting and business reporting, The Lebanese government's efforts to implement financial reforms have been impeded by political uncertainties and lack of consensus. There has been little progress in reestablishing the equity culture lost during the civil war, or in reforming a number of weaknesses in the legal and institutional corporate governance structure, leaving Lebanon in the bottom tier of emerging markets.

Current corporate governance requirements do little to protect minority shareholder interests. Given the large number of family-owned businesses, many of which are controlled through dual/multiple class share structures with unequal voting rights, the protection of minority shareholder rights is a key to improving corporate governance in Lebanon. Reforms should therefore focus on safeguarding the interests of minority shareholders. The most effective way to accomplish this is by requiring adequate disclosure of information, including that related to insider trading, and by adopting policies designed to make boards more responsive to all shareholders and not just to the

families that control a majority of the voting stock. There has been little progress in improving Board functions and most boards have few non-executive directors and even fewer independent directors. Boards tend to play a passive role in reviewing management performance or in strategic planning. Nomination, compensation, or audit committees are rare. Some progress has been made in improving disclosure of information that could affect share prices, adopting International Financial Reporting Standards (IFRS), requiring disclosure of ownership stakes in businesses. Though the Lebanese government recognizes that a well-developed corporate governance framework can be an effective way of attracting much-needed foreign capital, it has yet to make significant headway in improving the legal or institutional frameworks for corporate governance. Existing legal and regulatory requirements lack many important corporate governance protections, especially with respect to the composition and operation of boards of directors. According to the IMF report 2005 (Corporate Governance in Lebanon), Lebanon has yet to adopt a corporate governance code that applies to all publicly listed companies on a mandatory or on a comply-or-explain basis. While the business community has acknowledged the benefits of good governance practices, few companies are willing to change their corporate culture in order to create an environment in which such practices can flourish. But recently improvements have been made in the banking sector and banks now have to comply with the Core Principles of Effective Banking Supervision as issued by the Bank for International Settlements (BIS). Regulatory authorities have established an effective and independent Banking Commission and a Special Investigations Committee. There is growing public and private awareness of the importance of corporate governance, and efforts have been made toward reform.

The government has given high priority to improving the legal and institutional framework for corporate governance and also has been engaged in efforts (these governmental initiatives) to draft new laws that govern the operation and regulation of the stock exchange, including establishment of an SEC-like Higher Council for Capital Markets Supervision.

The foundation of corporate governance in Lebanon rests on the Commercial Law, with some additional provisions in the BSE Listing Requirements. Unfortunately, the Commercial Law is outdated and does not address many key corporate governance issues, while the BSE Listing Requirements narrowly focus on disclosure and accounting

issues. As a result, many key corporate governance areas are not addressed in the legal framework, which leaves minority shareholders vulnerable.

Lebanon's governance framework addresses about half of the Institute of International Finance IIF code that pertains to auditing/accounting. According to the same source, improvements to the framework should be made by requiring independent directors to chair audit committees and to exercise good audit oversight. The IIF Code also recommends the banning of contemporaneous provision of audit and non-audit services.

The Jordan Corporate governance[41] is the system by which organizations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the organization – such as the Board of Directors, managers, shareholders and other stakeholders – and lays down the rules and procedures for decision-making. The Companies Control Department (hereinafter referred to as the "CCD") was established in early 2003 as an independent department from the Ministry to provide registration services and implement effective control tools to ensure and activate the principles of corporate governance, and to provide secure growing investment environment in order to develop the national economy.

The CCD has interest in the success and sustainability of the business sector in Jordan and has taken the initiative to prepare the Corporate Governance Code (hereinafter referred to as the "Code"). Within the Corporate Governance Code[42], Section IV "Transparency and Disclosures", an organization should disclose clear, holistic, and complete information about its operations. Identifying the relevant information to communicate to each stakeholder group and the form of such communication are essential ingredients to enable the respective stakeholders to evaluate and relate to the organization and its prospects and so to contribute to constructive interaction with the company.

Disclosure is an ongoing responsibility of any organization and organizations should in the least truthfully, accurately, completely, and timely disclose information as required by laws, regulations, and the organization's articles of association. According to the Code, the Board should set *guidelines* relating to communication and the information to

[41] Corporate governance is increasingly important if Jordanian organizations are to prosper in a competitive global marketplace. For more information about the benefits of corporate governance please refer to (Annex A).

[42] URL: http://www.ccd.gov.jo/uploads/CG%20Code%20English.pdf

be disclosed with a focus on substance prevailing over form. In addition, disclosure should be made in a timely fashion to ensure fair communication of the disclosed information to all shareholders and relevant stakeholders. Also, it is important to consider the language of the information to be disclosed, and consider publishing information in Arabic primarily and English if possible. The communication guidelines should aim at promoting effective communication with the stakeholders and encourage effective engagement. The guidelines shall also regulate what information to be disclosed and to whom, to ensure that there is equal access to information for all shareholders equally. Board should set guidelines relating to communication and within the section of Corporate Governance Charter, the organization should establish a corporate governance charter describing the main aspects of its corporate governance policy and that it follows the principles laid down in this Code. In order to maintain timely disclosure, the organization should update its corporate governance charter as often as needed to reflect the organization’s corporate governance practices at any given time (and such information can be disclosed on the website making it readily available for review). For the Annual Report, the organization should include in its annual report a chapter on corporate governance describing key corporate governance practices and the degree of its compliance with the provisions of this Code. Within the Financial Statements, the Audit Committee should review their choice of accounting standards taking into consideration international best practices that recommend that companies report on the basis of International Financial Reporting Standards. At the least, financial information disclosed should include (i) financial statements and auditor's report, (ii) income statement, (iii) statement of changes in owners’ equity, (iv) cash flow statements, and (v) notes relating to financial statements.

The Code consecrates a section for “Non-financial disclosure” and it is stated that directors should review all of their disclosure standards related to non-financial information. Non-financial information covers several domains such as: Ownership structure including disclosure of shareholders owning more than 10% of shares; Directors’ shareholdings and any changes therein as well as benefits and remuneration they obtained; Directors’ attendance of Board meetings; Details of loans to Directors and related parties; Details of the organization's penalties imposed by any statutory authority; Material risk factors and uncertainties; The Company’s values, mission and objectives;

Commitment to social responsibility; Insider trading policy; External Auditor; Material issues regarding employees and stakeholders; Discussion of recent performance; Policy and procedure pertaining to related party transactions including the nature and amount of the transactions. The company's means of disclosure should be stated and by which information is disclosed in a transparent manner are given high importance in the Code. The Board should consider the most convenient and effective means of disclosure for the purpose of ensuring transparency. The Board should consider the time sensitivity, confidentiality, and other variables relevant to the information to ascertain the necessary mean of disclosure. The internet and other technologies should be used as much as possible to improve speed and allow for a broad and timely disclosure of such information. Types of disclosure available include, but are not limited to: Half-yearly reports hand delivered to relevant, stakeholders; Quarterly results made public through newspapers; Monthly newsletters made available online.

2.3.3. Government intervention in accounting and business reporting: policy, aims, and technical contents

Very few, if any Mena countries, have comprehensive standard setting processes and often accounting standards and rules are promulgated by government agencies, commonly the Ministry of Finance. According to an IMC study (IFC, Hawkamah, 2007), most countries are working on upgrading progressively their standards in compliance with IFRS and the quality of disclosed information is a function of sound accounting and auditing practices and their adequacy of a regulatory framework for the profession.
A summary Table 2.7 includes the main policies, aims, and the technical contents for government intervention in accounting and business reporting in 2 countries from the Middle East Region.

The Table 2.7 is a comprehensive and supportive literature to what have been examined before and will be listed in the following:

Table 2.7. – The main policies, aims, and the technical contents for government intervention in accounting and business reporting in some countries from the Middle East Region.

Region	Policies focus (the future orientation)	Aims focus	Technical contents focus
Lebanon	Seek to adopt and implement the 12 Keys standards for sound financial systems. Develop core principles for the corporate governance of large and exchange listed companies based on OECD CG. CG principles development for family-owned enterprises, SMEs, and State owned enterprises SOE. Seek amendments to the Commercial Code and other legislation for accounting and auditing, regulatory environment; identify the responsibilities of the Board of Directors, transparency of ownership and control, etc. Introduce a modern Securities law, a competition Anti-Trust law, modernize and reform insolvency and bankruptcy law, introduce a comprehensive capital markets law.	Monetary , Financial, and Fiscal Transparency Principles of corporate governance Banking, Securities, and Insurance Supervision Anti-Money Laundering Law	CG report applied only in the Banking sector Focused only Financial reporting Income Tax oriented
Jordan	To ensure and activate the principles of corporate governance system by the government (the Ministry).	Transparency& Disclosures To provide secure growing investment environment in order to develop the national economy. To ensure the success and sustainability of the Business Sector.	To disclose holistic, clear, truthfully, accurately, completely, and timely disclose information as required by laws, regulations, and the organization's articles of association. Companies' weighted average number of 0.45 pages devoted to social disclosure in its annual report. Subjects covered by CSD in annual reports were pertaining to legal provisions for Jordanian universities fees, scientific research and vocational training support and employees' welfare. The Board should set *guidelines* to be disclosed with a focus on substance prevailing over form. To ensure fair communication of the disclosed information to all shareholders and relevant stakeholders. The language of the information to be disclosed and publishing information in Arabic primarily and English if possible. The Guidelines should aim at promoting effective communication with the stakeholders and encourage

			effective engagement. The guidelines shall regulate what information to be disclosed and to whom, to ensure that there is equal access to information for all shareholders equally.

Source: Own elaboration.

According to a Jordan study (Larissa et al., 2012, pp. 73-94), the current corporate reporting and disclosure practice in Jordan is viewed as restricting itself to considerate the relationship between companies and a very limited set of stakeholders represented by the shareholders and financial market investors within a strictly economic domain which is the financial transactions. And while corporate social reporting and disclosure (Perks, 1993) involve reporting by companies about wider economic and social aspects of the company's performance than income and financial position. Also, it is usually seen as reporting to more interested groups ranging from shareholders, to investors and creditors including employees, local communities, government, environmentalists, consumers and even society at large. Corporate Social Disclosures (CSD) in Jordan seems to have received modest attention from most companies in terms of the space devoted to and the subjects covered by such disclosure in annual reports. According to the same study, Jordanian company had a weighted average number of 0.45 page devoted to social disclosure in its annual report. In addition, the subjects covered by CSD in annual reports were pertaining to legal provisions for Jordanian universities fees, scientific research and vocational training support and employees' welfare (i.e. provisions for social security). Nevertheless, the conclusions' study affirmed that there is a solid but small core of Jordanian shareholding companies especially from banks and financial companies and industrial companies who have articulated their CSD responsibilities in a convincing manner (also a comparative industry groupings analysis yields several inferences). All companies as such banks and financial companies, insurance companies, services companies and industrial companies included some social information disclosure in their annual reports and their reporting patterns were different; but nearly all companies from the various industry groupings adopted a common ranking for the importance of

disclosures on human resources and community involvement[43]. Regarding the environmental product and energy reporting, is not well appreciated and needs much more attention by the Jordanian shareholding companies. Keys areas of difference identified were the amounts as measured by page, methods and locations of CSD in annual reports. Monetary disclosures in the audited financial statements were the more prevalent and these were largely identified with the community involvement and human resources themes. Declarative disclosure especially in the directors' report was also generally accepted method by companies in Jordan. A comparative international analysis also suggests the CSD in the developing countries including Jordan were not as extensive as in the developed ones.

The evolution of Corporate Governance as a concept in the MENA region, and the tendency against disclosure in the MENA region and the reluctance of controlling shareholders to reveal financial or operational business details has lead to a distinct lack of corporate transparency. The need for proper disclosure and governance in the financial and corporate sector is slowly gaining traction on the political agenda. The move towards focusing upon good corporate governance practices began in early 2000 when regional regulators and the private sector began to consider the benefits of good corporate governance. The MENA region was particularly affected by the stock market crash of 2006 and regulators within the Gulf Corporation Council (GCC) countries felt obliged to enforce a governance system which protects the region's capital markets from uncertainty. To strengthen the corporate governance regime of listed companies was a rational starting point, the first corporate governance reforms were initiated by national regulators in Egypt and Oman who developed corporate governance codes in 2005 and 2002 respectively based upon the OECD Principles of Corporate Governance. The emergence of corporate governance centers providing educational and training services was a natural extension of the increased corporate governance mandate. Between 2005 and 2009, the MENA region introduced 11 corporate governance codes through national regulations, with special guidance for publicly owned companies, banks and family–owned businesses. The Palestinian, Emirati and Jordanian regulators introduced specialist codes for banks and the Moroccan Corporate Governance Taskforce and the

[43] This ranking of themes was in accordance with previous relevant studies conducted in the context of developing and developed countries.

Lebanese Transparency Association introduced specialist guidelines for family owned and small and medium sized businesses. The Egyptian Institute of Directors was the first regional pioneer of a corporate governance code, based upon the OECD Guidelines on Corporate Governance of State-Owned Enterprises, aimed specifically at state owned enterprises.

The FSB applied the following criteria for determining the list of key standards for sound financial systems in Lebanon: 1)*relevant* and *critical* for a stable, robust, and well-functioning financial system (including in light of the lessons from the recent financial crisis), in order to impart a sense of prioritization in implementation; 2) *universal* in their applicability, by covering areas that are important in nearly all jurisdictions; *flexible* in implementation, by being general enough to take into account different country circumstances; 3) *broadly endorsed* - namely, that such standards should have been issued by an internationally recognized body in the relevant area in extensive consultation with relevant stakeholders. To satisfy this criterion, the standard should preferably undergo a public consultation process. This criterion would also be satisfied when the standard-setting body has wide representation, or when the standard has been endorsed by International Financial Institutions (IFIs), such as the IMF and the World Bank; and 4) *assessable* by national authorities or by third parties such as IFIs.

The list of key standards will be periodically reviewed and updated by the FSB in the light of policy developments at the international level. The standards under the 12 policy areas highlighted here have been designated by the FSB as key for sound financial systems and deserving of priority implementation depending on country circumstances. These standards are broadly accepted as representing minimum requirements for good practice that countries are encourages meeting or exceeding.

These covered standards are for the conduct of macroeconomic and monetary policy, data transparency, institutional and market infrastructure, and financial regulation and supervision. They are intended to address the governance arising from the uninformed investors investing in securities without access to adequate, reliable information, the inadequate disclosure and dissemination, poor transparency by firms and governments.

2.4 Conclusion

The literatures developed in the first section were selected according to the subject of the thesis. Government intervention in accounting and business reporting in Lebanon and other Middle East countries were mainly oriented towards a corporate governance report where governments' programs and initiatives are still very active (in their initial phase). Official guidelines, amendments in the Code of commerce and other new official laws and rules issued were the main interventions in accounting and business reporting but within the context of corporate governance report.

Chapter 3: Accounting and business reporting in the Lebanese context

3.1 Introduction

The purpose of this Chapter is to study accounting and business reporting in the context of the national environment of Lebanon. An analysis of this institutional context will be described within Lebanese accounting arena where various institutional actors and agencies have roles, responsibilities, capacities, relationships with other actors and agencies.
The Chapter deals basically with the Lebanese business environment and intends to provide an understanding of accounting, reporting, accounting profession, accounting standards in Lebanon and to determine the impact of these requirements on the development of accounting system. An explanation of the various required accounting books and records, the sources of accounting principles, accounting principles and practices associated with the Lebanese context will be introduced in the following sections. In addition, the Chapter gives an overview of the fundamental accounting concepts, the financial reporting, the annual audit, and the filing requirements which are governed by the main institutional Lebanese actors in the business environment. The Chapter will be divided in two sections; the first section deals with the Lebanese accounting context, and the second section explains the Lebanese regulatory environment.

3.2 An overview of Lebanese accounting context

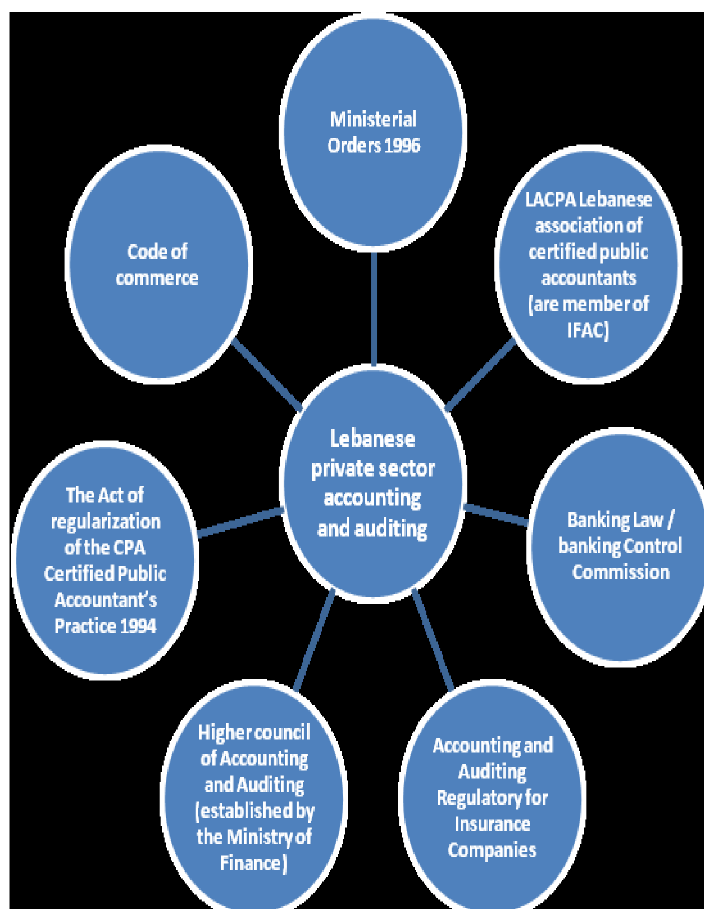
The first part of this section presents the main institutional actors in the Lebanese accounting and business reporting context. The second part deals with the legal and regulatory framework governing Lebanese accounting system. Finally, the last section concludes with how Lebanese national accounting system has been heavily influenced by the French colonialism system throughout the course of history because the French colonies were forced to adopt the accounting system of their colonial power.

While actors' identities and interests are shaped by the broader institutional environment, institutions are equally the outcome of particular constellations of actors and their

interactions. This understanding of institutions in terms of actor identities, interests, and constellations will help us to visualize the Lebanese accounting context by appreciating the relationship between actors and institutions and showing some emerging points of agreement regarding their co-generative or mutually constitutive nature.

Table 3.1 summarizes the Lebanese private sector accounting and auditing.

Table 3.1. - Lebanon Private Sector Accounting and Auditing



Source: Own elaboration.

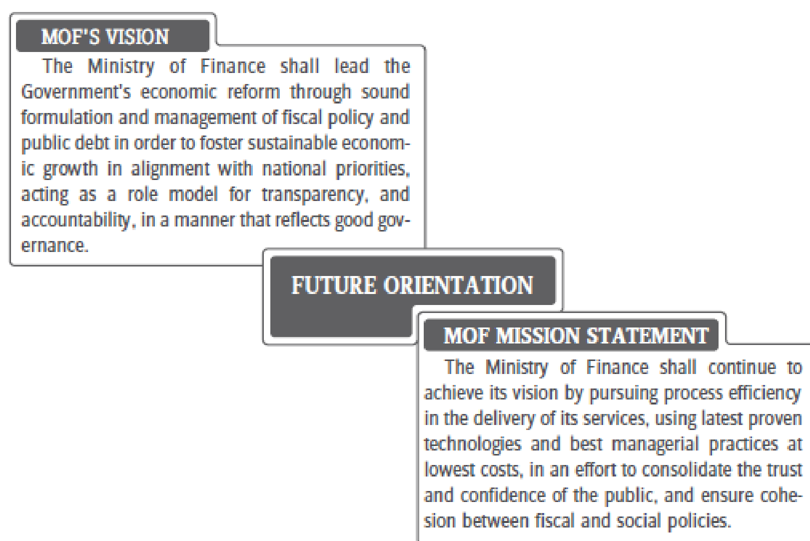
The Ministry of Finance is one of the seven original ministries which were established following the adoption of the 1926 Constitution with the beginning of the French Mandate in Lebanon. Although the Ministry has undergone a variety of changes since then, its main role and functions have remained essentially the same since independence in 1943. The Ministry of Finance is one of the most important ministries in Lebanon in

view of its key role in collecting revenues to finance public needs as well as its central role in the preparation of the budget and the monitoring of all public expenditures.

All decrees by the Council of Ministers that involve financial obligations have to be countersigned by the Minister of Finance in addition to the signature of the President and the Prime Minister.

The Ministry of Finance's vision and mission statement are illustrated in the Table 3.2.

Table 3.2. – Ministry of Finance's vision and mission statement.



Source: MOF, Reforms at the Ministry of Finance, 2005.

The Higher Council of Accounting (HCA) was established by the Ministry of Finance. It is headed by the Director General of the Ministry of Finance, and it plays an advisory role to the Minister on accounting and auditing matters. The HCA membership comprises representatives from the main stakeholders in the accounting and auditing profession, including the president of the Lebanese Association of Certified Public Accountants (LACPA), head of the revenue department, chairman of the Banking Control Commission (BCC), representatives of the chamber of commerce and industry and of the banks' association, and three practicing accountants selected by the Minister of Finance.

The Lebanese Association of Certified Public Accountants (LACPA) is the only legally recognized professional body and also being a member of the International Federation of

Accountants (IFAC), is responsible for regulating the auditing profession in Lebanon. In fact, all auditors are required to be members of LACPA. In practice, the LACPA does not have the proper resources to effectively monitor audit practitioners and there is no mechanism for the LACPA to monitor continuing professional education requirements of its members (Sifri, 2009).

On the economic level, Lebanon opted for a liberal regime characterized by freedom of trade and market exchange (Mahmassani, 2012). Lebanon's Central Bank issues bank notes and controls the market exchange, thus insuring the stability of the national currency. According to the Beirut Stock Exchange[44] (BSE) directives, all listed companies are required to prepare legal entity and consolidated financial statements under IAS. BSE[45] and the Banking Control Commission (BCC) have been successful in establishing special measures to enforce compliance. On a more general level, no regulatory authority is able or entitled to require and monitor compliance or conduct a performance review of public accountants and auditors.

Lebanon's Banking Control Commission at the Banque du Liban (BDL) has aligned the banking sector regulatory framework with international standards. BCC is an independent banking supervisory body and its offices are located at the Central Bank of Lebanon. The banking sector has benefited from the application of international codes and standards[46], whereby the sector seems immunized among the risks that threaten the stability[47] and development of banks in emerging markets.

The Stock market[48] is almost absent in Lebanon. There are 11 companies and 2 investment funds listed on the Beirut Stock Exchange (BSE) with a market

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[44] The Beirut Stock Exchange (BSE) was created under the French mandate in July 1920, by virtue of law No 1509, making it the second stock exchange to operate in the Middle East after the Cairo Stock Exchange.

[45] Beirut stock exchange, BSE directives; URL : www.bse.com.lb/LawsRegulations/Bylaws/tabid/79/Default.aspx

[46] Finally, the U.S. Department of Commerce, in its 2009 Country Commercial Guide, indicates that Lebanon's banking sector is sound with high capital adequacy ratios, and a transparent regulatory framework in line with the Bank for International Settlements standards.

[47] The main risk faced by the banking sector is its exposure to government debts (constituting more than 35 percent of total assets by the end of 2004).

[48] Even though the reopening of the BSE in 1996 following the heavily militarized conflict was not that easy after a 13-year closure, one of our major priorities was to reorganize and modernize the regulations of the stock exchange and to make the BSE ready to play a major role in the development of the country, repatriating overseas Lebanese capital, channeling international portfolio investments,

capitalization[49] of US$1.4 billion as of April 2003, which represents less than 10 percent of gross domestic product (IMF, 2003). As of April 2003, there were 63 banks operating in the Lebanese banking system, of which the ten largest banks held some 75 percent of the total banking assets (US$52 billion). There were 63 insurance companies, of which the top 15 companies accounted for 70-75 percent of the insurance business. In 2002, insurance companies in total issued approximately US$400 million in premiums. Also, it is internationally known that the source of finance in any market is divided equally into three categories: one third of the profits, one third of the banking finance and one third of the market bonds and stocks. In the Middle East, instead of one third (33.33%) we only have 6% from the market bonds and stocks source and in Lebanon; the rate is much less than 6%. This dependency on the banking sector is the second major problem.

Finally, the insurance sector[50] is regulated by the Ministry of Economy and Trade, according to an insurance law. The Insurance Control Commission prepares new laws aimed at enhancing the regulatory and supervisory framework, with specific accounting requirements applicable to insurance companies.

We might be asking ourselves "What does a country's legal system have to do with accounting?"

In fact, there are two major types of legal systems used around the world which are the common law (Common law began in England and is primarily found in the English-speaking countries of the world) and the codified Roman law (followed in most non-English-speaking countries, originated in the Roman *jus civile* and was developed further in European universities during the Middle Ages). Common law countries rely on a limited amount of statute law, which is then interpreted by the courts (court decisions establish precedents, thereby developing case law that supplements the statutes). Code

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and providing an important source of funds in the short, medium, and long term that will be used for this purpose. *In fact, the combined value of the securities listed on the BSE (excluding Lebanese Republic Eurobonds), rose from approximately $0.386 million* in January 1996 to $11.3 billion at the end of June 2011. The number of authorized brokers rose from 5 to 16 and the number of listed instruments rose from 3 to 21 (excluding Eurobonds) over the same period.

[49] Market capitalization (which is computed by including the value of all listed and unlisted shares of the company members of the Beirut Stock Exchange) rose from approximately USD 386 million in January 1996 to approximately USD 2,942 million by 31 July 2003, due in large part to the listing of SOLIDERE shares.

[50] Compared to the MENA countries, Lebanon's insurance sector with more than US$ 135 in insurance premiums per year per capita, or USD 450 million in absolute terms, appears large. However, total insurance premiums accounted for 2.8 percent of GNP, substantially below levels in OECD and upper middle countries, where premia stand in the range of 6-8 percent and above.

law countries (the case of Lebanon), tend to have relatively more statute or codified law governing a wider range of human activity. Code law countries generally have corporation law and sometimes called a commercial code (the Lebanese Code of Commerce) or companies act (i.e. the Act of Regularization of the Lebanese Certified Public Accountants Practice in 1994), which establishes the basic legal parameters governing business enterprises. The corporation law often stipulates which financial statements must be published in accordance with a prescribed format. Additional accounting measurement and disclosure rules are included in an accounting law debated and passed by the national legislature. In countries where accounting rules are legislated as it is the case of Lebanon, the accounting profession tends to have little influence on the development of accounting standards.

The statutory framework of Lebanese accounting can be summarized by a number of laws, decrees and ministerial orders governing Lebanese private sector accounting and auditing and in carrying out accounting and auditing functions.
The Code of commerce makes provisions for accounting regulations, in particular articles 16 to 21, which regulate book-keeping. The Code of Commerce (1954) and its amendments deal with joint stock companies, limited liability companies, and partnerships; and set out the rules and regulations regarding auditor appointments and audits of financial statements. Banks are covered under the Code of Money and Credit, the Banking Law (1963), and related decrees, including Resolution No. 10/1 (1984) that defines the chart of accounts for banks and other financial institutions (except insurance companies).

The Ministry of Finance has established a mechanism for adoption of IAS as the national accounting standards. Ministerial Order No. 1/6258, dated August 21, 1996, and issued by the Minister of Finance, requires that financial statements of all companies in the real sector should be prepared in accordance with IAS. On an annual basis, a list of the titles of applicable IAS is published in the Official Gazette. The Order No. 1/6258 states that the official English version should be referred to in resolving any instances of differing interpretation. Neither the LACPA or any other authority has issued an official Arabic translation of the IAS, however an Arabic print version that is in use in other Arab countries is readily available in Lebanon.

The Ministerial order (1996) requires conformity with IAS for most companies; consequently, all listed companies are required to prepare a legal entity and consolidated financial statements under IAS. But Law No. 27 (1980) still requires all commercial entities, except banks, to follow a unified chart of accounts. Since the tax authorities enforce the unified chart of accounts, the companies that prepare IAS-compliant financial statements also prepare a tax return in accordance with the accounting and reporting requirements in Law No. 27. Also, a Decree No. 8089 was issued in 1996 to clarify the legal requirements as to which companies are subject to annual audit.

Lebanon is a country that adopts public sector as the standard-setter but with a function that overlaps between authorities and influences the efficiency of enforcement and supervision. In addition, creditors and fiscal authorities are conventionally the main users of financial statements in Lebanon. Moreover, Lebanese accounting is known for its strong connection with taxation because the Lebanese legislator has decided that financial reports would be the basis for determining taxable income and consequently, tax accounts follow the rules of financial accounting. Therefore, tax legislation became a relevant source of accounting rules in Lebanon until the present day. General-purpose financial statements are often influenced by taxation rules and regulations.

The tax laws and decrees provide accounting requirements and the chart of accounts that companies must follow in determining taxable income. In order to satisfy the requirements of taxation authorities regarding the recognition of taxable revenues and deductible expenses, the preparers of general-purpose financial statements often tend to deviate from applicable financial reporting standards, preferring to follow the tax rules. As a result, treatment of certain items in the general-purpose financial statements may be different from that which should apply under the IAS.

Banking Law requires all banks to follow accounting and auditing requirements set by the Banking Control Commission (BCC). According to the applicable laws, banks must prepare and present annual and semi-annual legal entity and consolidated financial statements in accordance with the reporting requirements set by the BCC, in addition to various regulatory reports. These requirements are largely consistent with IAS, but with some significant deviations. Lebanon’s Banking Control Commission (BCC) at the

Banque du Liban (BDL) has aligned the banking sector regulatory framework with international standards. There have been a progress resulted from the application of international standards such as the Basel I Core Principles for Effective Banking Supervision (Basel Committee Publication Number 30) including capital adequacy standards and related prudential and regulatory measures (Basel Committee Publication Number 41) and the framework for internal control systems in banking organizations (Basel Committee Publication Number 40). In line with international trends and to ensure market integrity, Lebanon has introduced Anti-Money-Laundering and Terrorist Financing legislation. Additional regulations were issued relating to the implementation of the law enforced by a Special Investigation Committee.
The BCC (The Central Bank of Lebanon report) has issued a number of regulations in line with the Basel core principles of banking supervision requiring the creation of independent audit units reporting to the board in an attempt to regulate and mitigate information asymmetry problems. It has also recently set a general framework for risk management consistent with Basle II guidelines. The new regulation[51] will also encourage foreign-currency asset diversification. The banking sector has benefited from the application of international codes and standards, whereby the sector seems immunized among the risks that threaten the stability and development of banks in emerging markets.

The Act of Regularization of the Certified Public Accountants Practice (1994) provides the regulatory framework for the accountancy profession. This Act authorizes the LACPA to regulate the professional activities of public accountants and auditors. Membership in LACPA includes qualified individual auditors and audit firms. The Act stipulates that an audit report may be issued with the signature of an individual auditor, an audit firm, or both. Individuals with foreign accounting qualifications (such as United States certified public accountants and United Kingdom chartered accountants) may obtain membership in the LACPA after passing examinations that cover Lebanese laws.
According to a recent decree issued by the Ministry of Finance, some prequalified private sector audit firms may be engaged for the audit of public sector projects and entities and

[51] Lebanon which is expected to adopt Basel II standards, has managed with the help of the IMF to upgrade its financial risk monitoring capacity through the implementation of an Early Warning System (EWS) for the financial sector. The policy decisions support the growth of financial institutions and diminish systemic and market risk.

the Court of Accounts is the agency authorized to perform public sector audits. And because of the limited capacity of the Court of Accounts, the Minister of Finance has issued an order requiring all state-owned entities to engage independent private sector auditors to perform the required annual external audit. For this purpose, the Ministry of Finance issued a list of prequalified audit firms (Prequalification criteria were mainly based on certain size thresholds so that only large audit firms were prequalified- Lebanon – Accounting and Auditing ROSC). This new audit requirement was first applied in fiscal year 2001.

Law No. 364 of 1 August 1994 governs the accounting profession in Lebanon. The Syndicate of Licensed Accountants (Lebanese Association of Certified Public Accountants - LACPA) is responsible for registering accountants and issuing practicing certificates. To qualify as a certified public accountant, a person must hold a final Accountancy Certificate awarded by the above mentioned Syndicate. The Act of Regularization of the Certified Public Accountants' Practice in Lebanon, which was issued in August 1994, provides the regulatory framework for the accountancy profession. This Act authorizes the LACPA to regulate the professional activities of public accountants and auditors. Membership in LACPA includes qualified individual auditors and audit firms. The Act stipulates that an audit report may be issued with the signature of an individual auditor, an audit firm, or both. Individuals with foreign accounting qualifications (such as United States certified public accountants and United Kingdom chartered accountants) may obtain membership in the LACPA after passing examinations that cover Lebanese laws.

The legal framework doesn't include any provisions as to the professional standards that auditors are required to adopt. The Order on Auditing, issued by the Minister of Finance, does not cover regulation or supervision of the auditing profession and does not mention enforcement regulations or the monitoring of ISA compliance. However, a draft Ministerial decree aims to require all auditors to follow ISA. But until now, the "Auditor's Report on Financial Statements" remains the official format for audit reports in Lebanon (Ministerial Order 742, 2002). In addition, ROSC (World Bank Report, 2003) recommended the upgrading of accounting and auditing standards.

The Court of Accounts is the authorized agency to conduct the auditing of State Owned Enterprises (SOEs). However, given the limited resources of the Court of Accounts, the Ministry of Finance has recently issued a decree requiring all public entities to undertake annual independent audits by large auditing firms.

The main characteristic of the Lebanese banking system is the banking secrecy law. This law is excellent from one single perspective but is imposing on the other hand a lot of negative points that are affecting the Lebanese banking system and are hindering private entrepreneurship projects. When it comes to dealing with entrepreneurs, most of the credits and loans are decided based on the relationship between the banks' senior managers and the borrower. In addition, the shy participation in the stock market is also a disadvantage for private businesses in Lebanon, because they are becoming so dependent on the banking sector to expand their businesses.

Due to the banking secrecy law applicable in Lebanon, and with the absence of centralized credit reporting for stock risks, private companies do not release its financial statements to the public.

The insurance sector is regulated by the Ministry of Economy and Trade, according to the insurance law (Decree No. 9812, May 1968) revised and amended in 1993 and 1999 (Law No. 94). The Insurance Control Commission is preparing a new law aimed at enhancing the regulatory and supervisory framework, with specific accounting requirements applicable to insurance companies. These requirements differ from IAS but ensure consistency among insurance companies in the country. When the insurance sector is covered under IAS, the Insurance Control Commission plans to adopt IAS to serve as a basis for public, shareholder and supervisory purposes.

According to Nobes (2011), it can be assumed that some cultures develop strong equity-outsider markets and while others do not. The reason behind this difference is an issue which was not tackled by Nobes (2011) in his research report (2011) and it was left for economic historians and is not examined in detail in this report. As discussed earlier, some countries have strong indigenous systems, whereas others have imported systems that are still dominated, or at least heavily influenced, from outside. This dichotomy will

be expressed by using the labels SSC (for self-sufficient financial and legal culture) and DC (for dominated culture). For example, a DC country whose colonial inheritance came from a country with one type of financial culture would tend to have that same financial culture and this relate directly to the Lebanese case study. This variable could be measured in various ways, for example by the number of decades since one country gained political independence from another. Deeper insights into a country's context where countries were under Colonization, we can distinguish how accounting and business reporting were influenced and how affected the functioning of accounting and business reporting. We should observe and understand very well the effect of Colonial inheritance and study this probable and major explanatory factor for the general system of financial reporting in many countries outside Europe (Nobes, 2011). It is easy to predict how accounting will work in Gambia (a former British colony) compared with neighbouring Senegal (a former French colony). The same general point applies to predicting how accounting will work in Singapore or New Zealand, both of which must be expected to have British-influenced accounting. Similarly, this literature review can predict how accounting will work in Lebanon (a French colony). Colonial inheritance extends to legal systems and to other background and cultural factors, and not just to direct imports of accounting and substantial capital investment from another country may also lead to accountants and accounting migrating with the capital. To conclude, Davie (2000) observed that the British colonial masters have used accounting practice as an instrument of domination and control, which have aided their business activities and subsequent expansion of their colonial territories. According to the same author, this convenient mechanism was used for the purpose of ensuring more accountability in the colonies, and as an administrative tool of imperialism. In conclusion, we should emphasize the importance of examining the theoretical background of governmental intervention that will be the subject of the next paragraph.

3.3 The Lebanese regulatory environment

Historically, the accounting standard-setting process in Lebanon was solely controlled by the state. Financial reporting standards were primarily formed by laws, decrees, and ministerial orders. In Lebanon, the judicial system is based on the Napoleonic code and

an accounting plan similar to the French accounting plan of 1982 was adopted in 1981. The government enacted the *Plan Comptable Général* (PCG) and an accounting code and this code contained a general chart of accounts, requirements for the annual presentation of balance sheets and profit and loss accounts. The chart of accounts is composed of nine classes: long term and middle term accounts (Class 1/01), fixed assets accounts (Class 2/02), inventory assets accounts (Class 3/03), third-person accounts (Class 4/04), financial assets accounts (Class 5/05), expenses accounts (Class 6/06), operating revenue and income accounts (Class 7/07), income accounts (Class 8), cost accounts (Class 9). Class 01 to 05 form balance sheet accounts and Class 1 to 5 form financial position accounts. Class 6/06, 7/07 and Class 8 form income statement accounts. In each Class, principal accounts are codified in the decimal system. Each account is provided with a card in which its sub-accounts, its definition and its function are explained: whether it can be debited or credited, and which accounts can be used as counter-accounts. Definitions help bookkeepers to understand accounting terminology and the assumptions under which it is used. Each account has a rigid code, which makes it readily useable for information processing machinery. In the chart of accounts, each Class shows a group of capital, liabilities, assets, income and revenues, expenses and costs.

The development of the French General Accounting Plan[52] (*Plan Comptable Général (PCG)*[53]) in Lebanon will provide some illumination on the issues of accounting processes, organization and procedures faced by the Lebanese accounting system in general (Avenel, 1995; Gouadain, 1995). The origin of PCG extends back until the reign of Louis XIV. According to some authors, the French political and economic structures have relied, in the past, upon a dirigiste tradition and the role of the French government[54]

[52] The PCG and its chart of accounts (plan de comptes général) has been enormously influential in a number of countries in Europe and elsewhere in the world: countries such as Belgium, the Czech Republic, Greece, Romania, Spain and francophone West Africa have accounting systems which are, in large part, based upon the PCG.

[53] The first publication of the PCG in Vichy France was in 1943. The Plan drafting led to the promulgation of a sequence of PCGs culminating in the 1982 PCG which aligned French accounting with the European Communities 4th Directive on Company Law Harmonisation.

[54] The exact conditions under which the Ordonnance was prepared, and the main influences that bore on it, remain obscure. One reason is that the archives of the comity that prepared it have been lost, contrary to the other great Colbert Ordonnances, first of all the 1883 Ordonnance sur la Marine, that absorbed the maritime side of the Law Merchant. The 1673 text addresses only land-based trade and is therefore primarily influenced by Italian municipal statutes and by law of the fairs. See however Hauser (1933), Hilaire (1986), Lafon (1979), Levy-Bruhl (1931). The 1673 Ordonnance has benefited however from the publication of two large complemantary books by Jacques Savary (1622-1690), i.e. the main influence on the writing comity: first is Le Parfait Négociant (1675) which contains i.a. an informed commentary of the Ordonnance as of the intent and understanding of the writers; second are the Parères (1688) ie a compendium of usages and traders' customs, hence a remarkable treaty of the Law Merchant, that is explicitly presented

was to arrange the economic and social affairs of the country. Accordingly, the first intervention by the state in accounting matters was, indeed, by Louis XIV's minister, Colbert, who caused the 1673 Ordonnance[55] to be issued. This document was remarkable both in its field of application and in its procedural requirements on traders and merchants ("negocians & marchands") and in how to keep accounts and it the necessary book and inventory procedures (Mikol, 1995). The Ordonnance marked the beginning of French accounting law ou "le droit comptable", a concept which sounds strange to Anglo-Saxon ears (For de Kerviler and Standish, 1992).

In France as in Lebanon, the accounting regulations are composed of the commercial law and the Plan Comptable General, the general accounting plan. In this sense, the general accounting plan has provided referential guidelines, which collects the outcomes of the accounting thoughts and ideas in the country. Nevertheless, the general accounting plans commonly include the accounting principles, chart of accounts (cadre comptable), list of accounts, terminology of accounts and their interpretations, explanations for entry into the journal, evaluation principles and forms of financial statements. Again, this is not a law, and therefore, without official authorization such as a ministerial ordinance, it is merely "an accounting manual" for the accountants in each country.

The evidence suggests that the Lebanese accounting remained influenced by French rules until today. This paper has considered the case of accounting development in Lebanon from the French domination until the country's political independence in 1943 to argue that the state has played a predominant role until today. Lebanese mode of regulation is a public sector model which means state has the main role in the process of standard-setting. Accounting professionals are not in charge of the process of standard-setting.

The following Table 3.3 will explain in brief the Lebanese accounting regulators:

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as complementary to the Ordonnance. Le Parfait Négociant was reprinted regularly until the late 18th century and translated into Dutch, German and English.

[55] For instance, market forces benefited from an early, unified commercial code, adopted in 1673, which most striking character was its impersonal, individualistic, liberal character. Critically, the operation of both the payment system (exchange letters) and market exit (bankruptcy) were rule-based and relatively immune from outside interventions. More generally, when reading this code, one finds almost no trace of its having been written and enforced in an economy thinly fragmented in a myriad of status groups, guilds and local uncompetitive markets that in fact protected widespread rent-seeking interests.

Table 3.3. - Lebanese Accounting Regulators

Regulators in Lebanon	Context and motives	Outcome resulted and development
Government, Ministries of Finance & Economy	•Most accounting matters were codified by the General Accounting Plan published through decree No. 4665 dated 26 December 1981	•Law N.27/1980: Unified Chart of accounts except Banks. •Decree 4655/26.12.81: Formal Release of Lebanese Chart of Account. •Ministerial Order N.742/15.04.2002: Regulating the independent audit report. •Ministerial Decree N.673/1-14.06.01: IFRS application
"Code of Commerce"	Issued in 1954, it governs the Lebanese legal framework for accounting and auditing practices	•Law N.304/1942: Issuance of Trade Register •Decree N.8089/1996: Official Audit Report must include all Tax declaration.
LACPA Lebanese Association of Certified Public Accountants	Law No. 364 of 1 August 1994 governs the accounting profession in Lebanon.	•Ministerial Order 21.08.96: All financial statements should be prepared in accordance with IFRS. •No mandatory implementation or effective enforcement

Source: Own elaboration

The case of Lebanon indicates that the development of accounting was initiated and influenced by the French in the colonial and post colonial period. During the civil war (1975-1990), there was no significant development of accounting and the state centrally managed the economy using accounting as a tool and there was not market for accounting services until the release of Law 364.

In this paper, we suggest that the Puxty et al. 1987's model may be used to examine the accounting regulation in Lebanon; the state represents agencies of the government with authority to decree the practices that accountants must follow and maintain as

enforcement mechanism; and the accounting community is the one to which accountants feel they belong, sharing some common identity and value.

Most accounting matters were codified by the General Accounting Plan published through decree No. 4665 dated 26 December 1981.

Accounting standards regulators in Lebanon adopted IFRS through three phases. In 1980, Law No.27 in Lebanon required all commercial entities, except banks, to follow a unified chart of accounts (World Bank, 2003). Although there was wide recognition of both ISA and international Financial Reporting Standards in Lebanon, but there were no formal mechanisms for monitoring compliance; in other words, no formal adaption of IAS had been adopted in Lebanon (Sifri, 2004). On Aug 21,1996, Ministerial Order, issued by the Minister of Finance, required that financial statements of all companies in the real sector should be prepared in accordance with IFRSs formerly known as IASs (World Bank, 2003), but no mandatory implementation or effective enforcement for companies other than public listed ones or banks (Sifri, 2004). However, the use of IFRSs for regulated entities could conflict with a few of the provisions in the Code of Commerce of 1954, which governed the Lebanese legal framework for accounting and auditing practices. In accordance with Decree No. 1/6258, dated 21 August 1996, International Accounting Standards were introduced over a three year period, applying first to companies quoted on the stock exchange, then to banks and insurance companies and finally by large companies followed by all others. The banking and financial system are subject to the regulations set forth in the Code of Money and Credit (1963) and other related decrees which specify banks' and other financial institutions' chart of accounts templates . Banks and financial institutions have formally adopted the ISA.

Although many audit firms made effort to perform audits in accordance with International Standards on Auditing (ISA), quality of audits varies significantly. The Order on Auditing, issued by the Minister of Finance, does not cover regulation or supervision of the auditing profession and does not mention enforcement regulations or the monitoring of ISA compliance (World Bank &International Monetary Fund, 2003).

Within the context of accounting and business reporting, Lebanese businesses must issue and present periodical reports to the internal and external stakeholders of the required

entity. The internal stakeholders can be the owner, shareholders, or partners and the external Stakeholders can be the Capital Market, Tax Authorities, Social Security, Banks or moneylenders. This section focuses on the required reports and documents towards the business environment and more specifically towards compliance with the Ministry of Finance regulations.

The following accounting records should be kept:
a. ″General Journal″ where daily entries are to be recorded: the recording could be done on a monthly aggregate basis provided that permission is obtained from the Finance Department concerned and that all supporting documents and vouchers relating to the monthly transactions are kept for audit purposes;
b. ″General Ledger″;
c. ″Commitments Book″ in which the obligations received, given or exchanged, are to be recorded;
d. ″Inventory Book″ where inventory items, balance sheet and profit and loss captions are to be recorded
The books mentioned in (a), (c) and (d) above are statutory books. All pages of these books should bear the seal of the Commercial Court or a Notary Public as the case may be.

Furthermore, accounting records should be kept on the historical cost convention basis, except in the case of revaluation in accordance with the local requirements. In addition, the accounting records should be kept on the accrual basis and revenue and expenditure relating to a specific financial year should be recognized in that year.
Financial statements should be disclosed on an on-going concern basis. If another basis has been used, then the method and the effect thereof on the financial position should be clarified in the notes to the financial statements. The financial statements should reflect the comparative figures of the preceding year. And accounting records should be kept on the double entry book keeping system. Also, they should be supported by documentary evidence, be recorded in chronological order and be drawn up in a manner to allow quick extraction of financial information required by General Accounting Principles (PCG).

Audited financial statements together with the auditor's report, the directors or managers′ report, and the directors′ special reports commenting on existing or planned agreements between the company and its directors, must be submitted annually to the annual general assembly of the shareholders or partners.
The audited balance sheet, names of the members of the board of directors, managers, statutory auditors and court auditor are required by law to be published in the Official Gazette, a business publication and a daily local newspaper, within two months after the date of the annual general assembly.
Audited financial statements must also be submitted annually to the Income Tax Department together with the various tax declarations within five months after the end of the fiscal year[56].

Banks are closely monitored by the Central Bank of Lebanon and the Banking Control Commission; as such, both institutions must receive a copy of all audited financial statements, including the short form report (opinion), a special report concerning advances to directors and major shareholders and a special report commenting on existing or planned agreements between the bank and its directors. All of the aforementioned reports are submitted annually by the auditors of the bank to the shareholders. The Central Bank of Lebanon also receives annually from the auditors a copy of the detailed audit report (long form report), a letter regarding the various observations and recommendations in respect of the audit (management letter).

Financial statements (Audited financial statements must also be submitted annually to the Ministry of Finance - Income Tax Department at the end of the fiscal year) should comprise the following:
(a) Balance Sheet
(b) Profit and Loss account (statements of income and retained earnings)
(c) Statement of changes in financial position or Cash Flows Statements
(d) Notes to the financial statements.

[56] Three months in the case of sole proprietors or partnerships.

Any changes in accounting policies from one year to the next should be disclosed in the notes to the financial statements.

In summary, consistency in accounting principles, presentations and classifications should be observed. Consequently, any changes thereto should be for a better presentation of the financial position and should be noted in the financial statements along with the related effect on the financial and tax positions.

All companies have to update their accounts, while respecting the general accounting principles stipulated in the general accounting plan. This includes the publication of annual financial reports in Lebanese pounds (excepting holding and offshore companies). Also, a company's management is responsible for its financial statements, their accuracy and their respect for accounting standards. Any change in the methods of calculation or the presentation of the balance sheet has to be explained in the auditors' reports. Therefore, annual accounts have to be regular, fair, and provide an accurate image of the company's results. In addition, in case of a group that controls several companies, consolidated accounts are established.

According to the BSE directives, all listed companies are required to prepare legal entity and consolidated financial statements under IAS. The applicable laws and decrees empower the BSE to set financial reporting requirements for the companies listed in Lebanon. All listed companies should file annual and semi-annual financial statements. The semi-annual financial statements need not be audited, but should undergo a limited review. Listed companies are required to publish balance sheets and income statements in local newspapers, although this requirement can be misleading because the published documents are not accompanied by the full financial statements, including explanatory notes. However, the full financial statements are available at the BSE.
The Beirut Stock Exchange enjoys discretionary power to regulate listed companies and require the application of IAS standards. BSE and the Banking Control Commission have been successful in establishing special measures to enforce compliance. On a more general level, no regulatory authority is able or entitled to require and monitor compliance or conduct a performance review of public accountants and auditors.

All legal entities whether individuals, partnerships or companies are liable to income tax on their income or profits derived in Lebanon. The computation of taxable income or profit, the various exemptions and the rates of tax are all governed by the income tax law, which is periodically amended by government legislation.

The following Table 3.4 will summarize the income tax, the tax on salaries, and the value added tax in practice.

Table 3.4. – Taxation in Lebanon

Income Tax
Business income tax is imposed on the net business profit earned in the preceding year.
The fiscal year is the Gregorian calendar year, though companies may, with the approval of the Income Tax Department, use their own accounting year.
Tax returns of capital companies must be filed by 31 May in the year following the year of income.
Also, for Capital Companies, Independent Auditor Report must be submitted to the Ministry of Finance (MoF) by 31st of August in the year following the year of income.
Other taxpayers must fill their returns by 31 March in the year following the year of income.
All taxpayers, who are taxed on the basis of actual or lump-sum profits, must pay the business income tax together with other income taxes on submission of their tax returns, which should be filed by 31 January in the year following the year of income.
Tax on Salaries
Wages and salaries are taxed at progressive rates up to 20%.
The tax return is withheld and filed by the employer quarterly before the 15th of the month following the quarter in question.
Value Added Tax
Companies whose annual turnover exceeds USD 100,000 are required to register for VAT purposes.
The standard rate is 10% VAT, applies to most transactions involving goods and services, with exemptions for items such as; basic foods, financial and banking services, Insurance and Reinsurance, construction and renting of residential property.
VAT returns must be filed and tax paid on a quarterly basis, before the 20th of the month following the quarter in question.

Source: own elaboration

There are social security schemes in Lebanon covering the three areas of sickness and maternity, family allowance and end of service indemnity. As well as contributions to the social security schemes are payable by both the employer and employee and are calculated as percentages of monthly salaries and wages including overtime, gratuities and fringe benefits.

And the maximum amount on which contributions are calculated is USD 1,000 for the sickness and maternity scheme, as well as for the family allowance scheme.

The contributions payable to the Social Security are presented in the Table 3.5 as follows:

Table 3.5. - The contributions payable to the Social Security

The contributions payable to the Social Security National Fund are as follows: **Scheme**	**Payable by the employer**	**Payable by the employee**
Sickness and maternity	7%	2%
Family allowances	6%	nil
End of service indemnity	8.5%	nil

Source: own elaboration

In fact, social security contributions by employers are payable on a quarterly basis for companies with nine and less employees and on a monthly basis for larger firms. Employee contributions are withheld from the employee’s monthly remunerations by the employer and paid to the social security authorities together with the employer’s contribution.

To prevent double payment of social security contributions and assure benefit coverage, Lebanon has concluded social security tantalization agreements with several countries including France, the United Kingdom, Belgium and Italy.

Despite the progress in implementing IAS worldwide, there are still compliance gaps of varying degrees in both accounting and auditing practices. There are fewer gaps in listed companies and banks; a greater gap appears in other companies with determinants based on size and who is performing the audit. These gaps stem primarily from shortcomings in professional education and training in Lebanon (World Bank and IMF, 2003).

Therefore, a summary Table 3.6 was prepared to highlight the main problems which are impeding alignment of Lebanese corporate financial reporting requirements with International Accounting Standards (IAS); the Table illustrates the divergences between IAS, Lebanese National Standards – Lebanese GAAP, and actual practices in Lebanon.

Table 3.6. - The divergences between IAS, Lebanese National Standards – Lebanese GAAP, and actual practices in Lebanon.

Conflict Issues	Descriptions
The use of IAS for legal entity financial statements may conflict with certain provisions within the Code of Commerce.	For example, the Code of Commerce sets out that the payment of so-called "fictitious dividend" is subject to criminal liability. This may pose a problem if the correction of a fundamental error or a change in accounting policy has to be applied retroactively under IAS.
General-purpose financial statements are often influenced by taxation rules and regulations.	The tax laws and decrees provide accounting requirements and the chart of accounts that companies must follow in determining taxable income. In order to satisfy the requirements of taxation authorities regarding the recognition of taxable revenues and deductible expenses, the preparers of general-purpose financial statements often tend to deviate from applicable financial reporting standards, preferring to follow the tax rules. As a result, treatment of certain items in the general-purpose financial statements may be different from that which should apply under the IAS
Disclosures.	Generally companies avoid full disclosure of information in the published financial statements, thus ignoring the disclosure requirements set by the applicable accounting standards.
Revenue recognition (IAS 18).	In certain cases, when dealing with government contracts, revenues are reported only when received rather than when earned, as required under accrual accounting.
Statement of changes in equity (IAS 1).	Contrary to the applicable standard, the financial statements of many companies do not include the statement of changes in equity. The publication of erroneous and misleading annual reports should be subject to severe penalties, which may include administrative penalties, civil liability, and—in the event of fraud—criminal liability
Inventory valuation (IAS 2).	Few companies follow all the requirements related to measuring and disclosing inventory between the lower of cost or market value. It is

	common to understate or not to apply the provision at all for obsolete and slow-moving inventory.
The Lebanese Code of Commerce	Code of Commerce refers generally to auditor/client relationships but does not fully reflect the requirements of the IFAC Code of Ethics for Professional Accountants. The Code of Commerce, the respective ministerial orders, and other relevant laws should be fine-tuned; and other appropriate actions should be taken to ensure that IAS and ISA requirements apply to all public interest entities.
Assets pledged as collateral.	It is a common practice not to disclose assets in the financial statements that have been pledged for securing loans.
The insurance accounting and auditing regulatory framework is less advanced than that of the banking sector.	At present, insurance companies must prepare their annual financial statements in conformity with IAS, although there are no specific international accounting standards pertaining to insurance contract accounting. This causes problems. The Insurance Control Commission is preparing a new law aimed at enhancing the regulatory and supervisory framework, with specific accounting requirements applicable to insurance companies. These requirements will differ from IAS but will ensure consistency among insurance companies in the country.
The Banking Law requires all banks to follow accounting and auditing requirements set by the Banking Control Commission (BCC)-an independent banking supervisory body.	According to the applicable laws, banks must prepare and present annual and semi-annual legal entity and consolidated financial statements in accordance with the reporting requirements set by the BCC, in addition to various regulatory reports. These requirements are largely consistent with IAS, but with some significant deviations. For example, the allowance for loan losses is established in accordance with regulatory requirements rather than IAS 39, Financial Instruments: Recognition and Measurement; interest revenue recognition on bad loans differs from IAS 39 requirements; and the consolidation requirements differ significantly from those in IAS 27, Consolidated Financial Statements and Accounting for Investments in Subsidiaries. Circulars of the BCC are regularly updated toward closer conformity with IAS.
According to the BSE directives, all listed companies are required to prepare legal entity and consolidated financial statements	Listed companies are required to publish balance sheets and income statements in local newspapers, although this requirement can be misleading because the published documents are not accompanied by the full financial statements, including explanatory notes.

under IAS.	
LACPA	There is no mechanism for the LACPA to monitor continuing professional education requirements of its members.
LACPA	The law should be amended and enforcement mechanisms should be reviewed and strongly enforce the publication and filing of legal entity and consolidated financial statements. Legal entity and consolidated financial statements of public interest entities should be readily and timely, preferably available in electronic format.

Source: Own elaboration based on ROSC 2003.

Details of an auditor's report prepared in accordance with the Lebanese regulations for an organization are given in Appendix 1, 2, 3, 4, and 5.
The report will address the form and content (for the year ending on 30 September 2009) of Lebanese financial statements and include the following:

1. Independent auditor's report (Appendix A)
2. Statement of Financial Position or Balance Sheet (Appendix B)
3. Statement of Activities or Income Statement (Appendix C)
4. Statement of Cash Flows (Appendix D)
5. Notes to the Financial Statements (Appendix E)

3.4 Conclusion

The observations, studies, and tables done in this Chapter focus on the Lebanese accounting and auditing environment that influence the quality of Lebanese corporate financial reporting. It highlights the strengths and weaknesses of the accounting and financial reporting system applied in the context of Lebanon. The thesis stresses on the importance of high quality financial reporting, which is essential in public interest entities in order to help investors and customers making informed decisions about these entities. While IAS (is mandatory by Law but with exceptions) are highly adapted to

these public interest entities, they are more complicated than necessary for small and medium-sized enterprise (SMEs) and placing burden on them.

Chapter 4 The governmental intervention in the business reporting of Lebanese Telecom companies: reasons, processes, and consequences

4.1 Introduction

The purpose of this Chapter is to observe government intervention in business reporting and non-financial performance measurement as well as the associated processes and effects.

To this end, the paper in this Chapter will examine the Lebanese case, where the Government decided to impose mandatory ad hoc measurements and disclosures on Telecom Companies for control and incentive purposes.

The following section will address the importance of measuring and managing intellectual capital[57]. The scope of the work focuses basically on observing the introduction of IC Reporting in MIC 1 and MIC 2 context. Moreover, insights into the Lebanese telecom sector will provide valuable and additional information on the sector's infrastructure and strategy. In this article, the contribution of IC reporting through KPIs implementation is highlighted in the case study and it is shown as being necessary and complementary to the Financial Statements. In addition, the Lebanese case will provide the important resources related to the Lebanese business telecom sector including knowledge, access to networks, and human resources.

4.2 Insights into the Telecom Sector in Lebanon: Infrastructures and Strategies

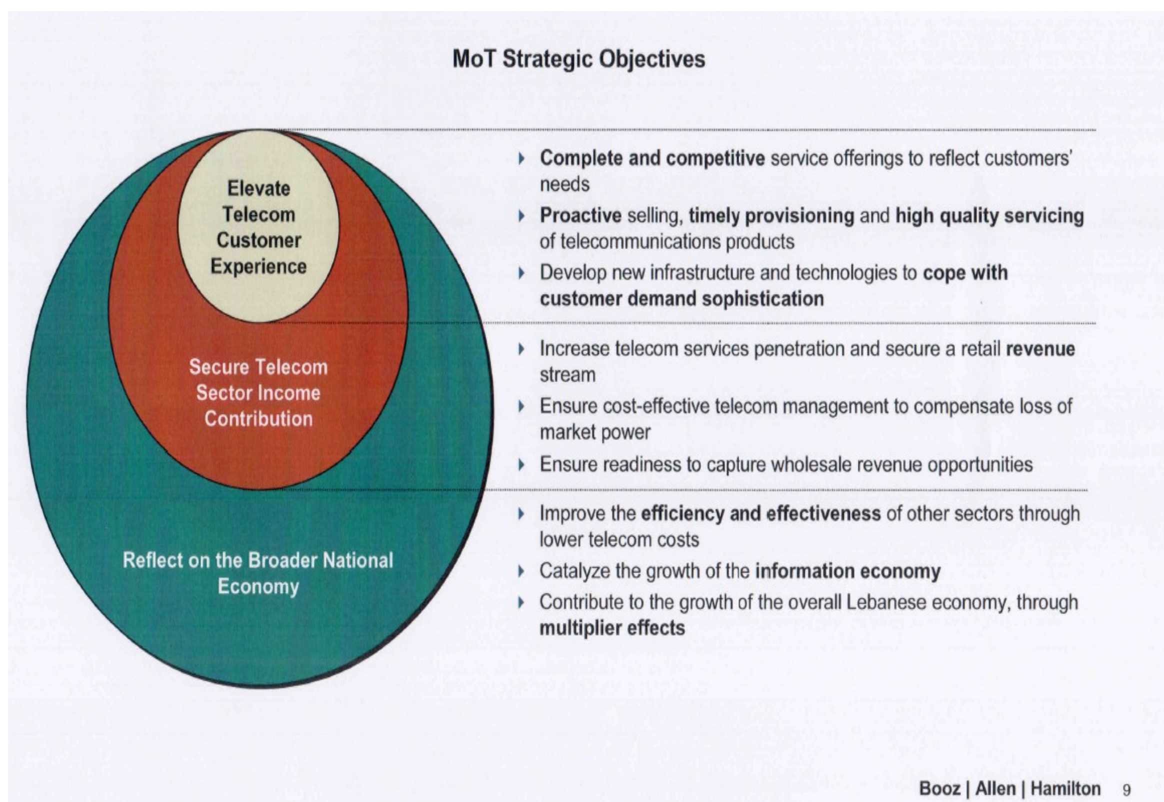
The telecom sector is the Lebanese government's second most lucrative source of income (behind direct taxation). Lebanon's two operators were originally set up under a 10-year Build-Operate-Transfer (BOT) agreement. Back in June 2001, the government controversially cancelled the BOT licenses held by LibanCell and Cellis which were not

[57] Going back to Ricardis (2006) and in the context of how to link IC to R&D, the Observatory of SMEs found that 4% of all SMEs enterprises are very active in high-tech industries, such as the pharmaceutical, aeronautics, and telecommunication sectors in 2000, and they noted that it is of interest to realize that in general, the largest part of R&D activities in the economy is concentrated in these industries.

due to expire until 2004 and invited bidders to manage the networks on its behalf, and the concession was eventually awarded to Zain and Alfa.

Following the enactment of the telecom Law 431 in 2002[58] (the present law which was supposed to govern the organization of the telecommunications services sector over the Lebanese territories and determines the rules for its transfer or the transfer of its administration, in part or in full, to the Private Sector, including the role of the State in this field), the Lebanese government was pursuing the liberalization of the Telecom sector. Consequently, its main objectives reflected three levels of interest: 1) customer experience; 2) income contribution; and 3) national economy. The strategic objectives are summarized in the following Table 4.1 according to an official study prepared by Booz Allen on the Lebanese telecom sector on January 2007.

Table 4.1. – Lebanese Ministry of Telecom Strategic Objectives



Source: Booz Allen (2007) and TeleGeography, GlobalComms Database Lebanon (2011).

[58] The new Law 431 will enable us to create a regulatory body similar to the French and American telecoms regulating authorities and it will be completely independent and enable us to maintain market competition and provide a license to potential buyers at all levels says the country's Ex-Minister of Telecommunications, Jean-Louis Cardahi. The telecommunications Law 431 will allow the Lebanese government to privatize its assets but the government has to choose whether to remain a partial shareholder or not.

The following Table 4.2 summarizes the most important events and steps that have characterized the Lebanese telecom sector.

Table 4.2. - The Lebanese telecom sector: context profile

Jan-94	Licenses awarded to LibanCell and Cellis to operate GSM-900 services on a BTO basis
Jan-95 & May-95	LibanCell launches & Cellis launches
Jan-97	LibanCell and Cellis both introduce pre-paid services
Jan-00	The mobile operators offer USD1.35 billion each to convert their BTO contracts into full GSM licenses; the state refuses the offer
Jul-02	New Telecommunications ACT passed
Aug-02	Termination of the BTO agreements
Dec-02	Cellis and Libancell hand over control of their networks to the state but continue to operate pending the result of the forthcoming licensing procedure
Oct-03	Privatization tender for GSM networks launched
Jan-04	New management tender issued to run the two mobile operators following the failure of privatization
Apr-04	Four-year management contracts awarded to Kuwait-based mobile operator MTC (now Zain) and Deutsche Telekom-owned consultancy DeTeCon, which each charges around USD4.2 million per month to run the networks
Jun-04	DeTeCon and MTC take charge of Cellis and LibanCell respectively; Cellulaire companies “cellcos.” renamed Alfa and MTC Touch Lebanon
Sep-04	Government reveals plans to adopt the 'British privatization model' and begins laying groundwork for the sale of stakes in the two cellcos
Dec-04	MoT relaxes restrictions on network capacity, allowing operators to sign up new users following three years of stagnant subscriber growth
Jan-05	MoT introduces new numbering system, moving from six to eight digits to support expected rapid expansion in GSM users
Mar-05	ATG claims that it was unfairly disqualified from bidding for the management control of Cellis and LibanCell, and Lebanese government is ordered to pay it USD420 million in compensation. The ruling is overturned in a US court in May 2005
Sep-07	Deadline missed for the privatization of MTC Touch and Alfa
Nov-07	Mobile privatization tender process launched
Feb-08	Rescheduled auction deadline for two mobile licenses and network assets (Mobile Interim Company (MIC. 1 & 2) - since postponed again
May-08	New deadline for auction of MIC 1 & 2 (but delayed again)
Jun-08	DeTeCon and Zain contracts for running Alfa (MIC 1) and MTC Touch (MIC2) end, but extensions granted
Dec-08	DeTeCon’s management contract for Alfa cancelled, Zain allowed to continue
Dec-08	MTC Touch rolls out EDGE services with national coverage
Dec-08	Alfa and MTC Touch allocated new GSM-1800 frequencies
Jan-09	Zain and Egypt’s Orascom Telecom win new one-year management contracts for MTC Touch and Alfa, respectively, commencing 1 February (subsequently extended)

May-09	TRA sets levels of monthly fees to be paid by mobile operators under full licenses (in Decision 7/2009)
Jun-10	Finance minister says privatization of two mobile operators will earn no more than USD3 billion - less than half the state's original expectation
Feb-11	Alfa announces a contract awarded to Ericsson to deploy a 3G network
Jul-11	Planned privatization (delayed) of MIC 1 & 2 pending government decision, possible IPO launches on the local stock exchange and/or auction for strategic investors; new licences to be issued will include 3G services
Jul-11	Planned issuing of third mobile license to Liban Telecom, following planned corporatization of fixed line incumbent Ogero
Feb-12	Management contracts of Orascom (Alfa) and Zain (MTC Touch) will expire
Dec-12	Scheduled market review of mobile network operating sector, and a study of the potential introduction of MVNOs (likely to be pushed back).
Jan- 2013	The Cabinet agreed to extend the operation licenses of touch and Alfa mobile companies for a maximum of one month to pave the way for a new tender or either allows the Telecommunications Ministry to operate the networks for three months or extend the contracts with the two current companies for three more months. According to the current contracts, both touch and Alfa operate the networks on behalf of the state in return for a monthly fee. The contracts are renewed once a year. The Ministry' s plan involves merging the state-owned mobile network infrastructures of the existing operators, touch and Alfa, into a single platform and then licensing three to five private firms to operate as Mobile Virtual Network Operators that offer retail services to customers[59]. The plan also calls for government ownership of the single network infrastructure, with the possibility of floating a stake of up to 3 percent on the market.
Recently 2013	Business Monitor International (BMI) - London-based risk analysis company pointed out that the new model ignored the fundamental need for private investment and competition at the network operator level, even though it allowed competition between the MVNOs at the retail level. The government heavily depends on cellular network revenues to reduce the country's budget deficit. Last year, the telecoms sector generated $1.6 billion in revenues, of which $1.4 billion went to the treasury.

Source: Own elaboration based on the TeleGeography, GlobalComms Database Lebanon, 2011

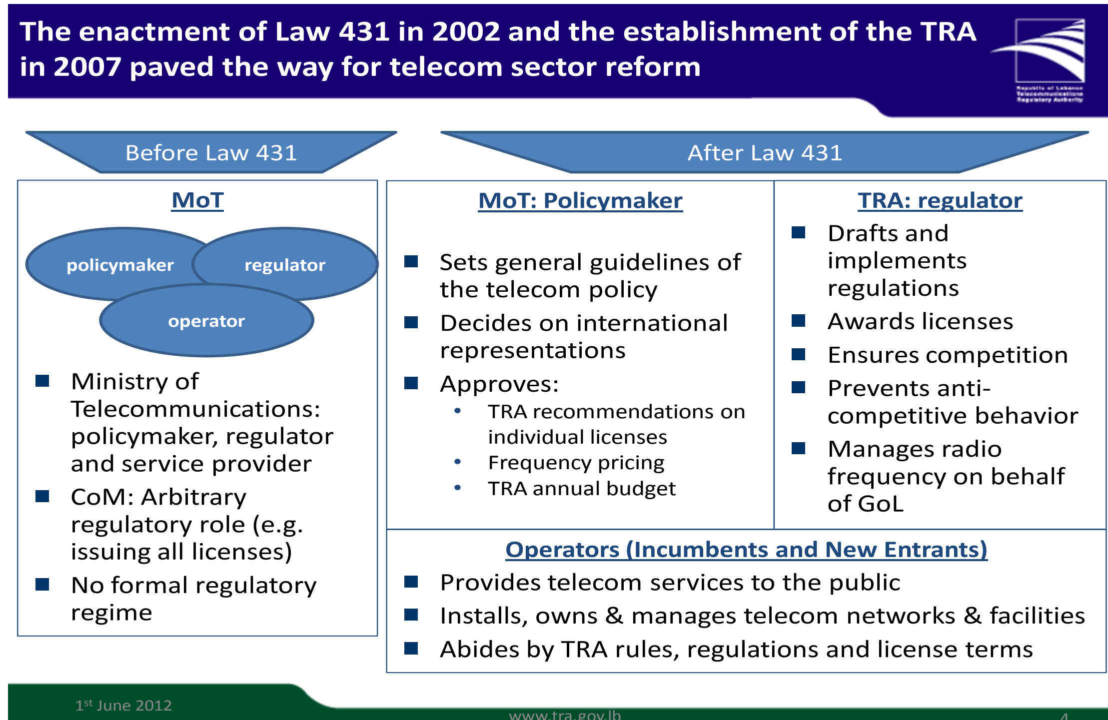
In order to understand the status of the Lebanese telecom sector before and after the enactment of the telecom law 431[60] and the establishment of Telecommunications

[59] Nicolas Sehnaoui, the Lebanese telecoms minister told *The National* that the government could sell a nominal three percent stake in the infrastructure company, and that three to five private companies would be offered licenses to resell the mobile services.

[60] Telecommunications Law as enacted by the Lebanese Parliament and published in the official gazette on July 23, 2002.

Regulatory Authority (TRA)[61] in 2007, Table 4.3 explains the role of the Ministry of Telecom before and after the enactment of the telecom law.

Table 4.3. – The Ministry of Telecom before and after telecom Law 431 in 2002



Source: TRA, 20012.

The Ministry of Telecommunications has been engaged in massive investments between 2009 and 2012 in order to modernize the fixed-line and mobile networks - Fiber Optic and 3G – and has implemented several measures aimed at boosting the sector and transforming Lebanon into a regional Digital Hub.

All these achievements have taken place with the work of an outstanding team which included, in addition to the Ministry employees and directors, the two telecom companies MIC1 and MIC2, the Minister's personal team composed of twenty exceptional persons.

The Ministry of Telecom has set and imposed a variable remuneration on the operators based on the execution of the 12 objectives (One Year Progress Report, 2012).

The following Table 4.4 will summarize the 12 objectives set by the MOT.

[61] "Authority" means the Telecommunications Regulatory Authority in Lebanon, established under the present enacted law.

Table 4.4. – The 12 Objectives set by the MOT

How the public sector intervened?

12 Objectives set by the MOT

- 1.Improving the call centers
- 2.Allowing at least one MISP (Mobile Internet Service Provider/3G new service) to operate on the network
- 3.Allowing distributors to activate new mobile lines on line (for security reasons)
- 4.Improving the quality of service QoS
- 5.Establishing national roaming
- 6. Creating an innovation department (2 for each company/staffing isn't active until now)
- 7. Creating mobile application platforms
- 8. Installing a new remote network monitoring tool ➔ NOC Network Operating Center
- 9. Meeting the operating expenses OPEX TARGETS
- 10. Rebranding (MTC Touch became Touch)
- 11. Installing a new ERP system at Alfa (not yet implemented)
- 12. Replacing the current WLL by the WLL via the mobile network in areas designated by the MOT.

Source: Own elaboration

The KPIs parameters along with corresponding target levels are mandatory minimum standards that Service Providers shall comply with.

In the past, companies used to measure themselves the quality of communications on their networks. Today, the MOT appoints an independent company specialized in the measurement of communications to measure the KPIs on a daily, weekly and monthly basis in order to check the Health of State's Network.

KPI tells the performance of the network on a daily/weekly/monthly basis, which helps to improve the network, so that operators & customers both enjoy the service at its most. Using sophisticated data analyses and key performance indicators (KPIs), the Lebanese government and the two state-owned companies can proactively identify infrastructure and service failure points and address problems quickly. For example, if a KPI related to network performance is breached (Interview, 2012), the solution sends an alert and pinpoints the assets related to the event, allowing crews to take speedy remedial action before customers even know there is a problem or service is interrupted.

The purpose of the regulation process of Quality of Services (QoS) and KPIs is that Service providers shall monitor their compliance of KPIs on a weekly, monthly basis and shall report their findings on a rolling basis to the MOT. Consequently, the performance of service providers should be reviewed annually and compared to QoS and KPIs targets based on a monthly reporting. Then, the MOT may impose mandatory QoS improvements for failure to meet QoS requirements within the time frame stipulated by the authority.
And if a service provider has not met its mandatory QoS obligations for a period stipulated by the authority, the MOT may treat such failure as a breach of the service provider’s license and may take any enforcement step accordingly.

Moreover, KPIs measures are used by the Ministry of Telecommunications to help define and evaluate how progress is done towards its long-term goals. In addition, KPIs are monitored using Business Intelligence techniques to assess the present state of the business and to assist in prescribing a course of action. As well as, the act of monitoring KPIs in real-time is known as business activity monitoring (BAM).

As a first step, and prior to data collection, the government defined the KPIs that are going to be managed in the telecom sector. The second step started when the government established an internal standard process inside the Offices of the MOT to gather all the relevant information relative to performance in order to manage the data and build KPIs.

Data gathering is periodical, and without a standard process the data could well be incomplete, wrong or late (MOT Interview, 2012). Having a data collection process reduces uncertainty risk when the data has to be reported to the government.

The Ministry of Telecom identified the responsible groups for the management of the KPI data, and the boundaries applicable to the data. The data will be collected from different departments, identified to ensure an effective communication between the KPI data group and the rest of the organization.

The data gathering group will need to identify and have contact with the data providers, and ensure that they are aware of and understand the mechanism of the data gathering process and its importance. And in order to meet company objectives and compare the data across time periods, it is essential to define time boundaries and this is be done monthly, quarterly, and annually.

Data verification is essential in the process to reduce data uncertainty and minimize errors in data gathering, which leads to a more accurate control of the processes, better decision making and control. Verification is done internally, externally, and third-party verification completes the work in order to have data accounting certified for reporting and compliance with governmental regulations and policies. The third party organization is a certification company with expertise and competence in Telecom service and it is appointed by the government. The evolution through time of specific data to meet specific targets can drive the company to redefine the needs to build up KPIs to better achieve targets. As a result, the KPI definition process ends up being cyclic.

Examples on KPIs are provided as follows:

Table 4.5. –KPIs used for the Lebanese Telecom Sector

Fixed Network Services	
QoS/Network Performance Parameter	**Target Level**
Availability of Telephone Exchange Equipment	≥ 99.99%
Call Set Up Time (Post dialling delay to ring tone)	≤ 3 seconds national at busy hour ≤ 8 seconds for international at busy hour
Billing Accuracy (valid accuracy-related complaints)	≤ 3 complaints per 1000 bills
Unsuccessful Call Ratio (% of call attempts)	≤ 1% On-Net National at busy hour ≤ 2% International at busy hour
Supply Time for Connection	90% within 3 working days
Fault Rate per Access Line	≤ 3 failures per 100 lines per month
Fault Repair Time (except for outages reports outlined in Article 11)	95% within 72 hours
Response Time for Operator Services (Time to answer from last digit dialled)	90% within 15 seconds

International Voice Services	
QoS/Network Performance Parameter	**Target Level**
Call Set Up Time (Post dialling delay to ring tone)	≤ 5 seconds for international
Echo Cancellers Usage at the Central Office	≥ 99.9% of each International Gateway Switch is using Echo Canceller for each Speech connection
Total delay in International Calls	≤ 250 ms
Unsuccessful Call Ratio (% of call attempts)	≤ 2% International at busy hour
Resolution time of International Gateway fault impacting traffic (except for outages reports outlined in Article 11)	Within 1 hour

Mobile Telecommunications Services	
QoS/Network Performance Parameter	**Target Level**
Supply Time for Connection	On demand for pre paid and within 3 hours for post paid
Call Set Up Time (Post dialling delay to ring tone)	5 seconds On-Net national at busy hour 10 seconds for international at busy hour
Unsuccessful Call Ratio (% of call attempts)	≤ 1% National at busy hour ≤ 2% International at busy hour
Dropped calls Per Cell	1 dropped call per 100 calls per Cell at busy hour
Congestion Factor	5 % of all Cells at busy hour
SMS Mobile Originated/Terminated Delivered	95% Delivered with 24 hours
Average Time to Respond to Customer Calls	85% of calls in less than 35 seconds
Billing accuracy (valid accuracy – related complaints)	≤ 3 complaints per 1000 bills
Fault repair time (except for outages reports outlined in article 11)	95% within 72 hours.

Premium Charge Services	
QoS/Network Performance Parameter	**Target Level**
Service Supply Time	On demand
Bill correctness complaints	3 complaints per 1000 bills

Audio Text Services	
QoS/Network Performance Parameter	**Target Level**
Service Supply Time	95% completed on agreed day
Bill correctness complaints	3 complaints per 1000 bills

Source: TRA Telecom Regulatory Authority, 2014; URL: http://www.tra.gov.lb/Key-Performance-Indicators

4.3 Observing the process of introduction by the government of KPIs and Quality of Service (QoS) Standards in Telecom Companies

The scope of the work focuses on observing and understanding the rationale of Lebanese government intervention in the business reporting of telecom sector (One Year Progress Report, 2012), and compare it in parallel to the IC statement based on the Danish Guideline which consists of four elements that express the Telecom companies' knowledge management: Knowledge Narrative, Management Challenges, Initiatives, and Indicators.

An intellectual capital statement is not only a report with the purpose of communicating, it is also a part of the company‘s knowledge management. A company intellectual capital strategy is therefore about the above knowledge resources and their interaction. When the interaction between these knowledge resources is understood, the firm's knowledge management strategy is clear (Marr and Schiuma, 2001, Mouritsen et al., 2003).

For that reason, the work with the intellectual capital statement involves an analytical phase in which a knowledge management strategy is prepared and the analytical part consists (Bukh et al., 2001; DATI 2001; DMSTI 2003) of four important elements that were already listed above.

The Danish guidelines used in my model and questionnaires focus on the translation of knowledge into knowledge assets. The aim is to highlight the relationships between a narrative understanding of knowledge, a business model of how knowledge works in the firm, a set of knowledge management activities and a reporting system that can monitor the development and the use of knowledge resources. It is a process model of how knowledge translates into organizational performance (Mouritsen, 2003).

IC Statement was used in this paper as a comparison tool because it helps to monitor a system (RICARDIS, 2006) by showing how firms can account for their intangibles resources and relate them to innovation. Therefore, it is very important to know about the composition of intangibles and explain their developments in the composition of resources, to know about the investments made in developing intangible resources, and thus to highlight the firm's efforts to make greater use of intangible resources. And finally, evaluate the results gained from intellectual resources, to monitor the effects of intangible resources.

The transformation from traditional valuation methods to the new ways of valuation by means of Intellectual Capital Reporting (RICARDIS, 2006) is an issue which is not yet mastered sufficiently in the Middle East countries due to the lack and non existence of Intellectual Capital Reporting studies, researches, and guidelines in this geographical area. While most studies done before have focused on the level of adoption of a classification (of indicators in different IC Reporting methods) in EU countries and some non-EU countries like Australia, US, Israel, Iceland, this dissertation gives attention to the first introduction of telecom sector KPIs in Lebanon and analyzes the concept of IC Statements in the Lebanese Telecom Sector.

Usually, primary research is best suited to questions that are easily answered by asking participants and to observing a particular group of people, event or situation directly. According to many authors, the areas where primary research is beneficial include the following: 1) topics that do not have an abundance of published works; 2) topics that involve research questions focused on recent/current events; 3) topics that are not usually studied; 4) topics that focus on a geographically local problem; 5) topics that focus on how a larger issue is portrayed at a geographically local level.

In fact, the primary research was the best suited research methods for the Lebanese telecom situation case because the Lebanese telecom topic does not have an abundance of published work, the topic research questions was focusing on the current situation of the Lebanese telecom sector, topics were not usually studied before, and it was a topic studied at a regional middle east level. The process of conducting the primary research for the Lebanese telecom case was similar to the writing process in that it involves working through stages. Consequently, the stages of conducting the primary research for the Lebanese telecom case can be defined as follows:

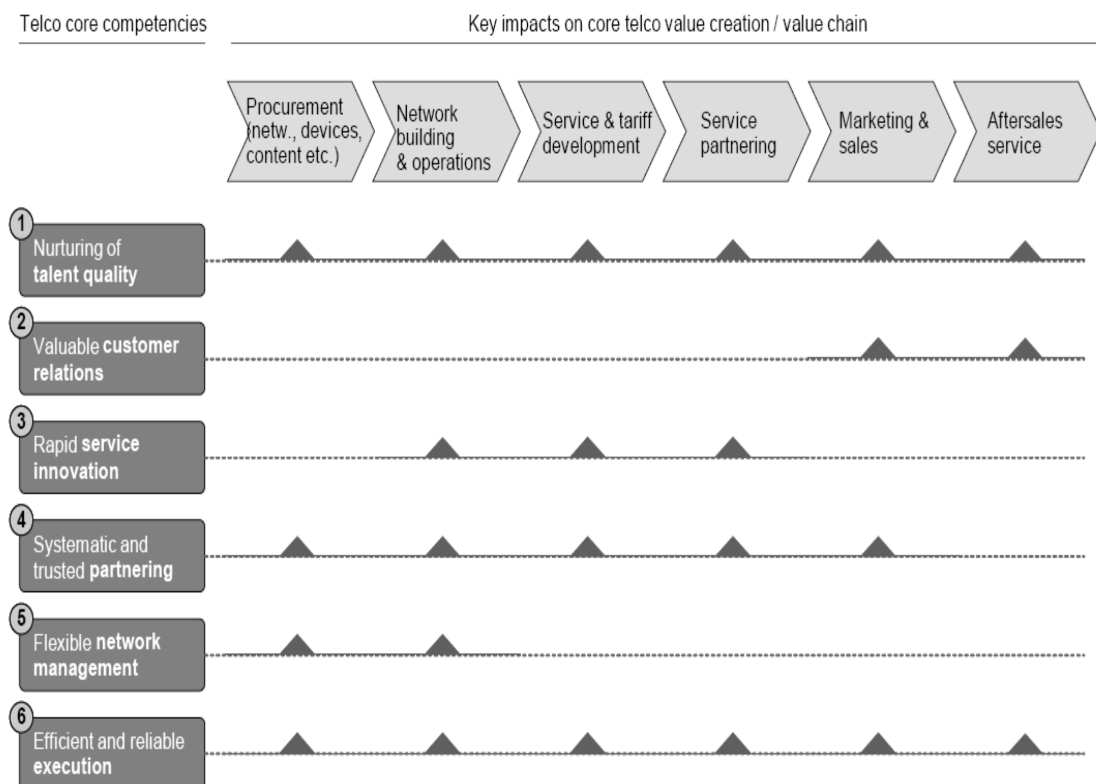
Creating a timeline to follow as working through primary research helps keep the research focused and the overall research paper on target. There are four main stages in the primary research process: planning, collecting, analyzing and writing.

The first planning stage consists of: 1) creating a research timeline; 2) developing the research questions. Going back to Chapter 1, Table 1.8 has illustrated the timeline of the research case study and will be described as follows:

In my first meeting with the Advisor to the Minister of Telecom (Eng. Firas Abi Nassif), I have stated the objective of my research which is "to examine the use of indicators of Intellectual Capital (IC) based on KPIs for the telecommunication sector" and I have asked the permission for (Lebanese KPIs) data sensing because the methodology used for detecting the use of KPIs will be based on a content analysis of the two telecom companies ALFA & MTC.

The research questions in the questionnaire number 1 are based on the proposed model presented in the Table 4.6 and Table 4.7 which helped me at a later stage of analysis to understand the value chain model of the Lebanese telecom sector.

Table 4.6. – The proposed model: telecom core competencies and key impacts on core telecom value creation / value chain model (showing the activities of a telecom company)



Source: Telecommunication sector KPIs proposed by WICI Europe (Interim Version 1.0), 2010.

The starting point for the identification of KPIs for the Lebanese telecommunication sector is the proposed model illustrated in Table 4.6, which shows how intangibles are linked to the value creation process. The questionnaire number 1 is based on the proposed model (in Table 4.6). This model helped me to show how intangibles are linked to the value creation model. The Ministry of Telecom has responded to the general questions and they defined each business activity according the proposed model (in relation to the Procurement, Network building and operations, Service and Tariff development, Service Partnering, Marketing and sales, and After sales services).

The purpose of the first questionnaire was to understand better the composition of the Telecom sector and its development. An extensive review on the Telecom sector was done with the interviewees (the advisor to the Minister, the Operational and technical departmental managers at the Ministry of Telecom) and more focused answers were provided in relation to the WICI proposed model.

Discussions and answers were recorded (English and Arabic language will be disclosed on the CD) during my first interview with the Ministry of Telecom and the formulation of my questions were selected according to the Danish Guideline, and consisted of four important questions in relation to the four elements, which together express the company‘s Knowledge Management:

1. Knowledge Narrative: A narrative about the Lebanese telecom sector firms' ambition to create (use) value for its customers and the types of "knowledge resources" required to accomplish this; (strategy, objectives, mission statement, etc).

   The question asked was: "Which values does the Lebanese Telecom Sector create for its customer?"
2. Management Challenges: What are the durable challenges posed by the role of knowledge resources in the firm‘s business model? (By explaining first the Lebanese Telecom sector business model).

   The question asked was: "What are the challenges that enable the Telecom sector to create value for its customers?"
3. Efforts: The initiatives to compose develop and procure knowledge resources;

   The question asked was: "What are the required Initiatives /actions?

4. Indicators: The mechanisms of monitoring the portfolio, development and effects of knowledge resources.
   The question asked was: "How do we measure this? *"KPIs"?*

   In addition, there are also other important questions also asked during the first interview which can be summarized as follows:

1. The strategy and mission statement of the Ministry of Telecom
2. The business model of Lebanese Telecom Sector
3. The process through which the Lebanese government is trying to implement some KPIs.
4. The main actors in the process of KPIs implementation.
5. The main reasons and the outcomes of such intervention.
6. How intervention can affect positively/negatively the Business reporting of such operators/companies?
7. The 12 objectives listed in the One year progress report (the execution of the 12 objectives)
8. What organizational resources are required?
9. What individual skills are required?

The top section of the proposed model (Table 4.6) is the ideal-typical value chain for the companies operating in the telecommunication sector. The left side of the model highlights the 6 core competencies in the Intellectual Capital Reporting categories. The inner part of the model presents the main relationships between the core competencies/critical factors and the value chain activities. Intellectual Capital Reporting section includes questions based on the following resources: Human capital focus, Organizational capital focus, and Relational capital focus.
The purpose of the questionnaire was to better understand the relevance of intangibles in the sector, and more particularly the value creation model of the telecom companies in Lebanon.
The research questions in the questionnaire number 2 (Table 4.7) and questionnaire number 3 (Table 4.8) were built on the basis of the list of KPIs (Key Performance Indicators) proposed by WICI Europe (Interim Version 1.0) and the Danish Official

Guidelines, and were articulated by Intellectual Capital area, focusing on the Human Capital (Nurturing of Talent quality), Organizational Capital (Efficient and reliable execution, Rapid service innovation, Flexible Network management), and Relational Capital (Systematic and trusted partnering, Valuable customer relations).

The questionnaire 2 illustrates in Table 4.7 is about the Human Capital elements in the Lebanese telecom sector. The answers may be in numbers, amounts, percentages, or even a key-sentence.

Table 4.7. – Questionnaire 2: The Human Capital Resources of the Lebanese Telecom Sector

1	What is the number of employees (full time positions or total payroll staff)? The number of employees is often background information indicative of the size of the company. Development over time may also reflect the growth strategy of a company. it could also be relevant to state total payroll staff	Answers
2	What is the number of employees in R&D?	
3	What is the number of managers?	
4	What is the number of women managers?	
5	What is the number of employee by category?	
6	What is the number of employee by division?	
7	What is the number of employee by region?	
8	What is the number of employee by type of contract?	
9	What is the Leadership index? Or other index used?	
10	What is the Motivation index? Or other index used?	
11	What is the Empowerment index? Empowerment index From a recurring SIFO (the Swedish Institute of Public Opinion Research) survey, an index is created to measure employee motivation, support in the organization, sensitivity to quality demands, matching of responsibility and authority, and competence. The scale is from 0 to 1,000.	
12	What and How is the Educational level? (According to the following categories: unskilled, skilled, office, technical college or graduate and postgraduate level.)	
13	What is Average age of employees? (Employees' total age / total employees)sawed	
14	Do you have Training program? (if available: Total education and training costs / total payroll expenses)	
15	How much you spend Time in training (days/year)?	
16	What is the number of male and female?	
17	What about Seniority in company?	
18	What is the number of apprentices or trainees?	
19	What is the average year of experience of staff?	
20	What is the Staff turnover?	
21	What is the Average year of service with company?	
22	What is the Revenue per employee?	
23	What is the Number of workers' accidents/claims?	
24	Number of employees / number of employees in alliances	
25	Do you have IT-literacy of staff (#)?	
26	What is the Age distribution (age group classification only)?	

27	What is the number of IT employees (#)?	
28	What is the Number of appraisal interviews held?	
29	What is the Number of employees being trained as project managers?	
30	How much the Number of days of absence / total working days?	
31	What is the Number of customers who are satisfied or very satisfied with staff / total customers (Based on a scale)?	
32	Do you have Co-operation agreements with universities & business schools?	Number of relationships
33	Count the Number of times employees access the CV database per month	
34	What is the Percentage of company managers of different nationality than the company registry?	
35	What is the Age distribution? = Employees distributed by age groups / total employees* The age distribution indicates the composition of employees with age. It shows the most frequent age interval and indirectly describes the mix of young, dynamic forces co-operating with more mature and experienced colleagues. The age distribution is most often background n d information.	

Source: Own Elaboration based on the Danish Official Guideline[62], DATI (2001) and WICI KPIs for the Telecom Sector.

Table 4.8 includes the questionnaire number 3. The research questions are based on the structural capital and relational capital and many questions on the human capital which were not answered before in the questionnaire number 2.

Table 4.8. – Questionnaire 3: The Human, Structural, and Relational Capital Resources of the Lebanese Telecom sector

Research questions:	**Total in / per area if available**	**Comments**
• What is the Employee commitment index?		
• High quality recruitment rate (recruitment from the 5 best business school and the 5 best technical school)		
• What is the Staff turnover rate among employees, sales teams, high potential employees?		
• What is the Average age?		
• What is the Position in students' employer ranking?		
• What is the Share of women in upper / top management?		
• What is the Share of employees in talent programs?		

62 A Guideline for Intellectual Capital Statements - A Key to Knowledge Management, Danish Agency for Trade and Industry, Copenhagen; The New Guideline was funded and published by the Danish Ministry of Science, Technology and Innovation and a large number of Danish firms have followed the guideline. The IC Statement, according to The Danish Guideline, consists of four elements, which together express the company's Knowledge Management: Knowledge Narrative, Management Challenges, Efforts, and Indicators.

• What is the Share of executive positions filled internally?		
• What are the Expenses on further education per employee (Training)?		
• What is the Access rate to training?		
• What is the Executive compensation / Net income?		
• What is the Average absence hour per employee/year?		
• What is the Annual Career Review Rate?		
• What is the Share of employee with formal mentor (where an existent process)?		
• What is the Management and Financial KPI forecasted hit rate?		
• What is the Net Promoter Score?		
• What is the Average Revenue Per User (ARPU)*?		
• What is the Share of post-paid contracts*?		
• What is the Churn (mobile) / line losses (fixed)*?		
• What is the Average Subscriber Acquisition Cost-SACs*?		
• What is the Subscriber Retention Costs?		
• What is the Brand recognition/value?		
• Service awards in last 18 months		
• What is the Avg. breadth of available customer inf.?		
• Amount of Training expenses per sales/service representatives		
• What is the Customer satisfaction index?		
• What are the Minutes per customer and per TLC service?		
• What is the Reputation index / External image?		
• What is the Market share per product / business?		
• Do you have Segments (segmentation,)?		
• What is the Share of revenue with non-core services (VAS)?		
• What is the Share of revenue with services launched in Last 18 months?		
• What is the Average ARPU/ARPA*?		
• What is the R&D exp. as % of Sales?		
• Do you have the No. of suggestions per 1000 employees/y?		
• What is the No. of R&D staff per 1000 employees?		
• What is the No. of non-tech employees in business development per 1,000 employees?		
• What is the Share of employees familiar with the strategy?		
• What is the Mgmt. quality of systematic partners?		
• Ratings for investor relations management.		
• Ratings for disclosure quality		

• What is the No. of external innovation cooperation?		
• External network quality ranking pos.*		
• Degree of all -IP migration*		
• What is the Service revenues / network capex+opex *?		
• What is the Share of pop. coverage w/ HSPA+*?		
• What is the Share of homes passed w/ > 16 Mbit*?		
• What is the Avg. service request backlog?		
• What is the G2M time for new services/tariffs?		
• What is the No. of enterprise applications used on average per employee?		
• First contact resolution rate		
• What is the Number of ISO certification?		
• What is the Share of employees w/ six sigma education?		
• What is the Share of cost transactions via internet?		
What is the ADSL /download speed?		
1 Mbps		
1 Mbps		
2 Mbps		
4 Mbps		
6 to 8 Mbps		
HDSL 2 Mbps		
What is the Network Cost/line?		
What is the Network Cost/line?		
• What are the Expenses on IT / total revenues?		

Source: Own elaboration based on WICI concept paper and WICI KPIs Telecom sector and DATI the official Danish guidelines.

The second stage is about collecting the data. The data collected for the Lebanese telecom case study is based on Interviews, questionnaires, and electronic mails. Five interviewed were conducted in order to collect the data directly from the Lebanese Ministry of Telecommunications and 3 questionnaires were formulated to be addressed to the official persons in charge at the Ministry accordingly to the timeline.

The interviews have been conducted respectively with the Advisor to the Minister Eng. Firas Abi Nassif, and with the Head of Technical Department Eng. Ziad Ziade.

The objective of these interviews was to observe and examine if the Ministry of Telecom are using the KPIs for the 2 telecom companies MIC 1 & MIC 2 which are the only two telecom companies in Lebanon.

Furthermore, a secondary source of data was collected from books, from published printed sources like journals, periodicals, magazines and newspapers, from published electronic sources like e-journals, published personal records, government records (Booz Allen Report, 2007), public sector records (TeleGeography, GlobalComms Database Lebanon, 2011), official electronic sources (World Bank Report, ITU, UN, UNESCO, IFRS, TRA, OECD), and other private companies 'records (Ernst & Young). It is very important to note that the official publication of Financial Statements for the Mobile and Fixed network companies' MIC1, MIC2, and OGERO fixed-line Company are not available.

Analyzing is the third stage and it involves the organization of the data and the interpretation in order to answer the research questions. The constant comparison grounded theory method developed by Glaser and Strauss (1967) was followed according to this method, 'data are collected and analyzed simultaneously' (Suddaby, 2006, pp. 633-642) and compared to those related in its industry if officially available to ensure the validity of the interview findings. Then, data were cross-checked and integrated the data from the questionnaires and interviews. Whenever the answers and numbers provided in the questionnaire or in the interviews were unclear, the respondents were contacted again and asked for additional clarification.

And finally the writing stage which includes the findings, and discussions. These two last stages will be discussed in the following sections.

4.4 Financial, Business Data and indicators in MIC1 and MIC2

It is very important to know that official publication for the two state-owned telecom companies is not available in Lebanon due to the fact that there isn't any law that enforces the publication and filing of the legal entity.

A formal request was sent from the Ministry of Telecom to the Ministry of Finance in order to provide with the financial statements of the two state-owned companies MIC 1 and MIC 2 but the letter was ignored and never responded by the Ministry of Finance.

The financial data were picked from different official statements reported in different Lebanese professional journals, and TV interviews. The official contract information is based on the TeleGeography, GlobalComms Database Lebanon (2011) which was provided by the Ministry of Telecom.

The two management companies currently receive US$2.5 million per month in addition to 8.5% of the revenues. The mobile networks contribute about 40% of the government's revenues - which was the main factor in the opposition to the privatization of the two mobile networks.

The following Table will illustrate the three important phases in the Lebanese telecom sector: Phase (1) – 1994/2004, Phase (2) – 2004/2008/extended to 2009, and Phase (3) – 2009/2012.

The yearly share of revenues paid to the government by each telecom company in the first Phase for the period 1994-2002 was 20% and 40% for the period 2002-2004.

The two telecom companies MIC 1 and MIC 2 were managing the telecom sector under BOT contract type. The operation was held by a joint venture between France Telecom and Mikati Group (Prime Minister) for MIC 1 and a joint venture between Telecom Finland TeliaSonera and Minister Dalloul.

On June 1, 2004, Zain (formerly known as MTC Group), was tendered a 4-year agreement by the Lebanese government to manage one of the country’s two existing mobile networks (Mobile Interim Company 2 – MIC2).

In November 2004, the operation was branded as "mtc touch", then as "touch" in June 2012. On June 19, 2012, MTC Touch rebranded into “touch” and adopted a new corporate identity featuring a 3D touch print in turquoise. Touch’s only competitor is Alfa telecommunications managed by Orascom telecommunications.

The management fees paid by the government per month are $4,200,000 for Alfa and $4,250,000 for MTC in the Phase (2). And the generated revenue for the government at the end of year 2009 amount to $336,000,000 by Alfa and to $414,000,000 by MTC.

The contract type changed in the third phase to a monthly fixed management fee paid to the government amounting to $2,500,000 for each telecom managing company and to a

monthly variable management fee equal to 8.5% from the total revenues for each telecom managing company.

Finally, the generated revenue for the government in year 2010 yielded $732,141,176 by Alfa and $795,652,941 by MTC.

The following Table 4.9 summarizes the three phases of Lebanese telecom sector.

Table 4.9. – Financial and Business Lebanese Context

	Description	**MIC 1**	**MIC 2**
Phase (1) 1994-2004	Contract type	BOT	BOT
	Branding	Cellis	LibanCell
	Market Share-December 1999	40%	60%
	Subscribers December 1999	200,000	300,000
	Market Share-December 2004	40%	60%
	Subscribers December 2004	423,600	635,400
	yearly Share of revenues paid to the government 1994-2002	20%	20%
	yearly Share of revenues paid to the government 2002-2004	40%	40%
	Operator	Joint venture: France Telecom+Mikati Group (actual Prime Minister)	Joint venture: Telecom Finland (TeliaSonera)+Minister Dalloul
	Handover claim paid by the Government	$82,000,000	$96,000,000
	Monthly Subscription: Post-paid	$25	$25
	per-minute rate: Post-paid	$0.13	$0.13
	Monthly Subscription: Prepaid	$45	$45
	per-minute rate: Prepaid	$0.50	$0.50
Phase (2) 2004-2008 extended to 2009	Contract type	Management of National Properties	Management of National Properties
	Rebranding	Alfa	MTC
	Market Share-December 2009	45%	55%
	Subscribers-December 2009	1,066,487	1,314,065
	Management fees charged to the Government/month	$4,200,000	$4,250,000
	Management fees charged to the Government/year	$50,400,000	$51,000,000
	Generated revenue for the Government/year (2009)	***$336,000,000***	***$414,000,000***
	Operator	DeTeCon	Zain

	Monthly Subscription: Post-paid	$25	$25
	per-minute rate: Post-paid	$0.13	$0.13
	Monthly Subscription: Prepaid	$45	$45
	per-minute rate: Prepaid	$0.50	$0.50
Phase (3) 2009-2012	Contract type	Management of National Properties	Management of National Properties
	Branding	Alfa	MTC
	Market Share-December 2010	46%	54%
	Subscribers-December 2010	1,300,000	1,499,000
	Market Share-July 2012	48%	52%
	Subscribers-July 2012	1,846,000	2,000,000
	Monthly **FIXED** Management fees paid by the Government	$2,500,000	$2,500,000
	Yearly **FIXED** Management fees paid by the Government	$30,000,000	$30,000,000
	Monthly **VARIABLE** Management fees paid by the Government	8.5% from Total Revenues	8.5% from Total Revenues
	Net Total Management Fees collected by Cellcos (2010)	$100,800,000	$106,700,000
	Yearly **VARIABLE** Management collected by Cellcos (2010)	$70,800,000	$76,700,000
	Sales Turnover / year by Cellcos (2010)	$832,941,176	$902,352,941
	Generated revenue for the Government / year (2010)	***$732,141,176***	***$795,652,941***
	Operator	Orascom	Zain
	Monthly Subscription: Post-paid	$15	$15
	per-minute rate: Post-paid	$0.11	$0.11
	Monthly Subscription: Prepaid	$25	$25
	per-minute rate: Prepaid	$0.36	$0.36

Source : TeleGeography, GlobalComms Database Lebanon, 2011 and own elaboration.

4.5 A reclassification of Intangibles values of MIC1 and MIC2 in an IC perspective (WICI)

KPIs are classified in three intangible categories: Human Capital, Relational Capital, and Organizational Capital. The complete list of proposed KPIs per core competencies used in the model is the specific Critical Success Factors for the Telecommunication sector

and consists of measuring financial and non-financial elements of the Lebanese sector and evaluating its performance that is vital to its competitive advantage.

Intangible values of MIC1 and MIC2 are collected and represented in the Table 4.10 as follows:

Table 4.10. - Intangible values of MIC1 and MIC2

	Answers (key-words)	**Comments (keys-sentences)**
• Employee commitment index	High	State owned Business
• High quality recruitment (recruitment from the 5 best business school and the 5 best technical school)	Applicable	Engineers from Top ranked Faculties in Lebanon (American University of Beirut, Lebanese Public University, St. Joseph University, Lebanese American University)
• Staff turnover rate among employees, sales teams, high potential employees	Low	Only on managerial levels, because high positions are attracted the UAE market - "Brain Drain" process.
• Average age	45	Employees Total Age / Total Number of employees
• Position in students' employer ranking	High	During Summer: Internship students between 8 & 12 weeks
• Share of women in upper / top management	50%	Minority of Female talents in top mgmt. operational dept. V./S. majority of female talents in service, marketing, finance…
• Share of empl . in talent programs	Low	such programs remain on managerial level
• Share of exec. positions filled internally	40%	Based on new vacancies, performance of the candidate in the previous position, Religious and political belonging.
• Expenses on further educ. per employee (Training)	Applicable	Based on Yearly budget.
• Access rate to training	100%	According to a rotation program based on position and needs among departments.
• Executive compensation / Net income	10%	average compensation / FTE/Year=$34,159 - # FTEs 2300 - Yearly Net Income $750M
• Average absence hours per employee/year	0	Compensation of Late Arrivals, and Early Departures, is allowed by internal regulations between. Also, To mention high over time rate in this sector.
• Annual Career Review Rate	Once / Year	Yearly appraisal
• Share of employee with formal mentor (where an existant process)	Low	Mainly for technical departments, and upon needs or new system upgrades or implementation…

• Management and Financial KPI forecasted hit rate	110%	Number of contractual FTEs*100/Budgeted Number of FTEs - 2300 FTEs in 2012
• Net Promoter Score	Very Low	Two companies dominating the Global National Market
• Average Revenue Per User (ARPU)*	$39	Despite the decrease in ARPU from $71 in 2008 to $50 in 2009 to $42 in 2010 to $39 in 2011. Variation ARPU 2008-2011 = 45% Decrease
• Share of post-paid contracts*	16%	Postpaid (voice+WAP+Blackberry) / Total Mobile (Voice+Data)
• Churn (mobile) / line losses (fixed)*	20%	% Churners to Fixed Line
• Average Subscriber Acquisition Cost-SACs*	$15	Monthly Subscription: Post-paid
	$25	Monthly Subscription: Prepaid
• Subscriber Retention Costs	$5	Duopoly with around 1M subscriber for each company and overloaded Network
• Brand recognition/value	High	Both companies are operated by Internationally recognized entities in this field (ORASCOM & ZAIN)
• Service awards in last 18 months	3	1-Introducing 3G technology 2-decreasing the prices 3-Starting MVNO process
• Avg. breadth of available customer inf.	3G	Increase 25 mbps
• Training expenses per sales/service representatives	Negligible	Marketing campaigns focusing on the product as sales force + limited competition with same prices
• Customer satisfaction index	60% - 20%	Overall satisfaction: about 60% of mobile users are likely to recommend their provider - almost 20% are likely to switch
• Minutes per customer and per TLC service	$0.11	per-minute rate: Post-paid
	$0.36	per-minute rate: Prepaid
• Reputation index / External image	Low	Quality of service not up to International Standards, and the Introduction of advanced services is slow due to the structure of the sector. Prices are well above the regional prices (despite the latest decrease in prices).
• Market share per product / business	48%	MIC 1
	52%	MIC 2
• Segments	19%	Wholesale
	22%	Personal
	28%	Enterprise
	31%	Home

• Share of revenue with non-core services (VAS)	70%	Value Added Services: among MMS, Roaming, WAP, and GPRS, the most widely known is MMS, and the most used. 30% of mobile users have not heard of these VAS
• Share of revenue with services launched in	18%	18% of users know that there is a lower rate in International calls at night
• Last 18 months	3	1-Introducing 3G technology 2-decreasing the prices 3-Starting MVNO process
• Average ARPU/ARPA*	$39	Despite the decrease in ARPU from $71 in 2008 to $50 in 2009 to $42 in 2010 to $39 in 2011. Variation ARPU 2008-2011 = 45% Decrease
• R&D exp. as % of Sales	1%	Until end of year 2012-Introducing thecR&D department to start during 2013
• No. of suggestions per 1000 empl./y	Low	Only High managerial levels and engineers have suggestions right
• No. of R&D staff per 1000 employees	10	Still in process
• No. of non-tech empl . in business development per 1,000 employees	667	2/3 of employees are non-technical and 1/3 technical
• Share of empl. familiar w/ strategy	420	Mostly technical people + Top management
• Mgmt. quality of systematic partners	Yes	4 main International Standards applicable: 1- ISO/IEC 27001 the information security management system (ISMS) certification standard 2- ISO/IEC 27002 The code of practice for information security management with advice on a broad range of controls 3- ISO/IEC 27005 the information security risk management 4- ISO/IEC 27006 the guide to the ISMS certification process for certification bodies. ALSO membership in JTC 1 technical committee (ICT standard for business and consumer application)
• Ratings for investor relations mgmt.	N.A.	Owned by the Government
• Ratings for disclosure quality	Good	According to Government's standards
• No. of external innovation cooperation	N.A.	Not set up yet
• External network quality ranking pos.*	7	from a score ranging from 1=low to 10=best
• Degree of all -IP migration*	2/8/16 Mb/s ADSL or ADSL2+ which is not sufficient to provide meaningful Triple Play services	It does this by converting all of these services to IP for backhaul into the core IP network: which is where you want your ALL-IP migration strategy to eventually lead.

• Service revenues / netw. capex+opex *	14	Revenue =6,922,800,000 Capex=24,000,000 Opex=460,000,000
• Share of pop. cov. w/ HSPA+*	Low	Launched in late 2011 with a lot of complaints from the bad services because the network was not yet prepared to handle it
• Share of homes passed w/ > 16 Mbit*	16%	Due to extensive terrestrial and satellite broadcast offerings.
• Avg. service request backlog	24 hours-7/7	Non-stop
• G2M time for new services/tariffs	Government's decision	limited competition with same prices
• No. of enterprise applications used on average per employee	High	same on employees PCs and based on the discipline
• First contact resolution rate	5% within 72 hours	First contact resolution rate=N0. calls resolved at firs contact/total N0. calls received
• No. of ISO certifications	4	1- ISO/IEC 27001 the information security management system (ISMS) certification standard 2- ISO/IEC 27002 The code of practice for information security management with advice on a broad range of controls 3- ISO/IEC 27005 the information security risk management 4- ISO/IEC 27006 the guide to the ISMS certification process for certification bodies.
• Share of empl. w/ six sigma education	Some of them	Six Sigma practitioners use data to monitor, control, and improve operational performance by eliminating and preventing defects in products and associated processes, including management, service delivery, design, production and customer satisfaction.
• Share of cost transactions via internet ADSL /download speed	Monthly Subscription	Download/Upload usage limit / GB*
1 Mbps	$16	4
1 Mbps	$25	10
2 Mbps	$50	20
4 Mbps	$77	25
6 to 8 Mbps	$115	30
HDSL 2 Mbps	$150	40
Network Cost/line	$155	2 G
Network Cost/line	$388	3 G
• Expenses on IT / total revenues	0.14%	Expenses on IT =$1,000,000 /Total Revenue =$6,922,800,000

Source : Own elaboration based on WICI KPI for Telecom sector and The Danish New Guidelines.

According to the study, the Ministry of Telecom is the responsible for all CAPEX. That means that the government should finance any development within the scope of these two telecom sectors. According to the numbers, the structure of the industry is experiencing today important reforms for developing knowledge resources because the current state of the state-owned operators are not helping the Telecom sector to achieve its long term vision in order to move from its current pre-competitive position directly to best practices model (Booz Allen, 2007) as reported by the consultant to the Minister Mr. Firas Abi Nassif (Abi-Nassif, 2012).

The employee commitment rate is very high because the state owns the business and employees are considered in the public sector and highly committed to job because of stability in the job.

High quality recruitment is applied and according to the best top rank faculties in Lebanon: American University of Beirut (AUB), Lebanese Public University (UL) , Saint Joseph (USJ), Lebanese American University (LAU).

There is a low staff turn over rate among employees, sales teams, and high potential employees on managerial levels; while high positions are attracted to the UAE market. The problem of Brain drain in Lebanon is a very serious problem which has affected badly the economy of Lebanon.

The average rate of employees is 45 which is very high according to the Ministry because contract cannot be terminated until retirement in the public sector.

The position in students' employer ranking is high because during the summer internship summer program is implemented and students are allowed to stay between 8 and 12 weeks.

The share of women in upper / top management equal 50%. The minority of female talent is found at the top management level and operational departments. While a majority of female talent is found in the service, marketing, and finance departments.

The share of employee in talent programs is low because such programs remain at managerial level. While the share of executive positions filled internally is 40% based on

the new vacancies, performance of the candidate in the previous position, and also the religious and political belonging.

The expenses on further education per employee for training purposes are applicable but it is changing and based on the yearly budget.

The access rate to training is 100% according to a rotation program and based on the position the requirements, the necessity among departments.

The executive compensation / net income is 10% and the average absence hours per employee per year is nil because they have flexible hours.

ARPU is service revenues less pass through regulatory fees and telecommunications taxes, divided by the weighted-average number of customers, divided by the number of months during the period being measured. Management uses ARPU to identify average revenue per customer, to track changes in average customer revenues over time, to help evaluate how changes in our business, including changes in our service offerings, affect average revenue per customer, and to forecast future service revenue. In addition, ARPU provides management with a useful measure to compare our subscriber revenue to that of other wireless communications providers. The (ARPU) mobile blended Average Revenue per User has been decreasing over the last year but remains high compared to regional markets.

Between 2009 and 2012, the Ministry of Telecommunications engaged in massive investments, in order to modernize the fixed-line and mobile networks - Fiber Optic and 3G – and implemented several measures aimed at boosting the sector and transforming Lebanon into a regional Digital Hub. These initiatives have started to bear measurable results and speed has improved by 15 and 18 times on the fixed-line and mobile networks respectively.

International connectivity has increased by 11 times and will soon be redundant with the purchase of an 800 Gbps capacity on the Alexandros submarine cable. Internet prices for companies and private individuals have decreased by 80%. The number of DSL and Mobile Broadband subscribers has risen by 20% and 158%, respectively. All these measures are expected, according to World Bank studies, to increase the growth rate of the economy by more than 2 points.

Alone, there is room for improvement in the quality of mobile phone calls, given the obsolescence of the 2G infrastructure and the lack of maintenance and investment. An

aggressive action plan was launched early 2012, which would enable the country to meet international standards by the end of the year at the latest.

Inefficiencies in Lebanese telecommunications industry are evident to the public and illustrated by the following indicators: tariffs being among the highest consumer prices, narrow competition, and low market penetration rates at a significant cost to the economy and welfare of the Lebanese population. Despite this fact, today Lebanon is the country with the highest annual increase in the 2012 ICT Development Index. Lebanon now ranks 52 worldwide in the 2012 ICT Development Index, was able to effectively translate infrastructure improvements into services progress between 2011 and 2012, has seen a 236% increase in wireless broadband penetration from 2011 to 2012, has seen a 240% increase in wired broadband penetration from 2011 to 2012, and finally has seen broadband costs drop by over 70% from 2010 to 2012 (TV Interview with the Minister and ITU report 2013).

According to the Lebanese Ministry of Telecom, the challenge is now for the Lebanese youth, programmers, inventors of applications and innovating entrepreneurs, once the infrastructure is upgraded, to turn the potential into reality and thus reverse the trend of emigration (Brain Drain process).

4.6 Conclusion

Insights into the Lebanese telecom sector reveal that the Ministry of Telecommunications has been investing from 2009 until 2012 in order to modernize the fixed-line and mobile networks - Fiber Optic and 3G – and has implemented several strategies to boost the telecom sector and transform Lebanon into a regional Digital Hub.

KPIs, business and financial data were observed and measured in MIC 1 and MIC 2. In addition to these measurements, intangible values for the two telecom operators were also detected by implementing a regulated process for Quality of Services (QoS) and KPIs. Accordingly, service providers' compliance with the KPIs (on a weekly, monthly basis) are reporting on a rolling basis to the MOT. The 12 objectives set by the Lebanese Ministry of Telecom which are very specific to the Lebanese telecom sector and form a little part of "WICI" KPIs in Business Reporting. This telecom regulation was drafted by the ministry of telecom to mandate a minimum set of standards KPIs on a regular basis

that a service provider with significant market power should meet. The Authority's principles pertaining to the Technical QoS and KPI Regulation were issued through decision 6/2009. According to the study done on Lebanese telecom sector and based on the questionnaires' answers, the government authority aims to assure consumers of quality service, fairness in tariffs, transparency in billing (billing accuracy), detailed and per service billing, charging, and proper procedures for the resolution of customer disputes through this telecom regulation. The objective of this regulation is to mandate a minimum set of standards that a service provider should meet and to identify a meaningful set of KPIs for the mobile, fixed, data and ISP services.

We conclude with the mission statement that was published in the Lebanese official gazette (2002) that "it will be the objective of the Telecommunications Regulatory Authorities to ensure these KPIs are regularly published to assist users to make informed decisions as to their service providers".

Chapter 5 Discussion and conclusions

5.1 Discussion of Research Questions

This research has attempted to study the government intervention in accounting and business reporting, describing its rationales, rules, and actions. The literature on governmental intervention in corporate reporting was presented under three different approaches and has also covered some of accounting theories and practices in the Middle East countries. In addition, accounting and business reporting was studied in the Lebanese context, focusing on the governmental intervention in the telecom sector.
In this section, the research questions presented in Chapter 1 will be reviewed, and compared and contrasted with the findings of the work, with the aim of providing some answers and additional explanations in relation to the literature reviewed in Chapter 2. Furthermore, the findings are interpreted in the context of government intervention in accounting and business reporting.

5.1.1. Discussion of Research Questions #1: What are the rationales underlying the government intervention in business reporting and non-financial performance measurement (and not in traditional accounting), as well as the associated processes, actors, and effects?

As pointed out in Chapter 1, there have been a series of European and international initiatives at institutional and academic level where official studies have been done on intangibles. Also, we have witnessed governmental agencies that are and have been very active in the field of IC Reporting and they issued guidelines in Denmark (DATI) and other countries as Austria (ARC IC Report), Europe (MERITUM), France (IC-dVAL®), Germany (Wissensbilanz), Iceland (PiP project), Sweden (IC-Rating™), and Spain (Intellectus Model ®). Governments have offered numerous voluntary guidelines to encourage company to use IC Reporting (practices). (Please refer to the Appendix F for a brief summary of voluntary guidelines currently available on official websites and provided by countries' governments).

One important aspect of government intervention in accounting and business reporting is that Intangibles are mostly not included and mostly ignored in the traditional accounting model. According to RICARDIS[63] (2006), the reporting of intangibles will communicate and reveal information about the enterprise's intangible resources, contribute to transparency in the business model, and so improve the quality of the dialogue between investors and investees-companies. The process of identifying and reporting Intellectual Capital will create greater transparency by disclosing complex/intangible resources such as competencies and relationships (make them visible), improving the internal process of managing resource allocation and the access to finance (i.e. augment the finance available to carry out R&D and innovation), reducing the risk and uncertainty to internal as well external stakeholders.

While governments perceive the importance of reporting intangibles or capital resources, it became also an urgent matter for firms to report them in order to meet economic and competitiveness needs in the global market particularly after many economic downturns.

Furthermore, companies consist today of increasing part of intangible assets and these capital resources (the hidden driver of the Knowledge-based Economy) are mostly expensed but in fact they should be capitalized instead. The reason for investigating this research question was to identify and understand also the limitations of traditional accounting and reporting models which are based on expensing the wider range of intangibles under IAS 38. For that reason, financial statements are becoming less informative on the firm's current financial position and future prospects and creating gap between the market value and the book value of equity of most companies in most countries (Lev et al., 1999). The increased attention given to intangibles and knowledge resources to create value has called for new frameworks to report organizational performance (Bukh, 2003; Marr & Spender, 2004; MERITUM, 2002; PRISM, 2003). Again, these problematic, influential, and ill treatment of intangibles have pushed towards new forms of corporate reporting and more particularly towards the rise of business reporting. The capacity and flexibility of business reporting to include capital resources, non-financial performance metrics, and also to focus more on the business strategy, growth, risks and opportunities, results and outlook, and also investment and financing gave it more credits for review. In addition, companies are more aware today

[63] Intellectual Capital is like the roots of a tree that allow the tree to grow, now and in the future.

about their need to manage their intangibles properly and in a conscious way their value creation process. This trend for a more structured, systematic, reliable and comparable information on intangibles has steadily increase. These concerns and facts were pushing government more and more towards translating differently their concerns into intervention in different kinds of reports, guidelines, statements and this was evidenced by the presence of a crowded world of non-financial reporting. The purpose of this research is to reveal government intervention in business reporting respectively in the Management Report under the European Accounting Directives, in the Management Commentary according to IASB, and in the Management Discussion &Analysis report in the USA. The government intervention in the Management Report was obvious when they added that the report "shall include both financial and, where appropriate, *non - financial key performance indicators* relevant to the particular business, including information relating to environmental and employee matters". Furthermore, the Practice Statement is not an IFRS and consequently, entities applying IFRSs are not required to comply with the Practice Statement. For that reason, the intervention in the Management Commentary was not mandatory for companies who are applying IFRS. The changes provided in the Management Commentary were more about forward-looking information and more non-financial information including key-performance indicators (KPIs) for the industry to which the entity belongs. An impressive transformation of MD&A from voluntary disclosure to compulsory disclosure was signaled in response to the global financial crisis, and the SEC reminded companies of their obligations to include disclosures of risks and issued an interpretative release providing guidance on the MD&A requirements in order to improve the discussion of liquidity and capital resources. The rationales of these interventions were very obvious behind the current trend towards the introduction of non-financial measures into the Business Reporting of organizations. But as we have seen, some reports are mandatory and while others are on voluntary basis creating a mismatch between organizations (national and international) within the same industry. While this literature review identifies motivations for government intervention in business reporting, it is important to know that it is not only profitable for the government to intervene in business reporting but also it is necessary for the companies who are seeking better opportunities in the market place and multiple objectives.

To conclude with the first part, the divergence between different reporting systems and different guidelines is worsening and delaying the resolution of the situation to recognize and measure appropriately intangibles. For that reason, government awareness (value creation process to be visualized), initiative (to issue guidelines), and intervention (to regulate by forcing the Law) on both and systemically at international level and national level is recommended in corporate reporting.

Interestingly, Sikka and Willmott (1995, pp. 341-369) has pointed to the fact that "there will be some amount of state intervention into accounting regulation, and some amount of legal backing will be introduced for interventionist reasons if there is a concern in the public interest over whether or not allowing self-regulation to be the only form of regulation". For that reason, it is very important to know that the rationale for government intervention in accounting and business reporting can also be shaped by public interest approach because self-regulation may be not the preferred choice of regulation for a country and legal backing is welcomed in this case to support the intervention. Within the same context, the predominant uses of accounting failed to capture the importance of disclosing intangibles and have been always for the calculation of distributable income and taxes (Leuz et al., 1998; Watrin, 2001). This criterion could be a valid reason to define, explain and justify the purpose for regulatory intervention in financial reporting because the main function would have been to give capital market participants (Demski and Christensen, 2003) a true and fair view of a company's economic situation.

In addition, the outcome of an intervention should be measured in function of its objective. Accordingly, in order to analyze the situation of a government intervention in accounting and regulation process, we have identified the principal actors (The public and private, national and international scene) interacting with each other in the public domain of accounting and business reporting as well as understood their objectives, concerns and intentions. Within this context, governments (public and private sector institutions) and communities were very active to raise IC awareness among enterprises, to promote the existing guidelines, to improve the use of IC Reporting, to standardize, and to diffuse IC Reporting. According to RICARDIS (2006), it is highly important to highlight good practices and develop ambitions for IC Reporting towards *the*

convergence of methods when coordination failures impede the correct functioning of markets, resulting in lack of transparency and IC Reporting here can help to reduce the risk.

These practices present a new rationale for the use of IC Reporting, which I believe is theoretically sounder than the traditional rationale for intangibles' accounting and lead to more transparency and better reporting.

In addition, the thesis has translated the rational followed in the Lebanese case and it is reflected in the literatures selected. In the literature, extensive discussions on regulatory or government initiatives have been provided under the public interest theory where the official explanation for such initiatives implicitly and explicitly reflected a public interest justification (James, 2000). But according to Hood (1996), "these forms will fail under certain circumstances, and regulation will improve public welfare". There are also arguments on the public interest theory account of regulation inside government that appear to be *paradoxical* (James, 2000) and this contradiction is well perceived because if legislators and regulators designing and operating regulator systems are attempting to further the public interest then all public officials might be expected to do the same. These arguments left the so-called Public Interest Theory exposed to open criticism and it doesn't support my thesis. Institutional theory attends to the deeper and more resilient aspects of social structure and considers the processes by which structures, including schemes, rules, norms, and routines, become established as authoritative guidelines for social behavior which does not support my thesis.

Finally, the political economy perspective is the approach adopted and which supports the thesis. The theory perceives accounting reports as "social, political, and economic documents and as a tool for constructing, sustaining, and legitimizing economic and political arrangements, institutions and ideological themes which contribute to the corporation's private interests" (Guthrie and Parker, 1990). Disclosures under political economy theory have the capacity to transmit social, political, an economic meanings for a pluralistic set of reports recipients because 1) its explains the motivations for additional social disclosures, 2) it has the potential to explain the role of regulation in disclosure practice and that regulation can significantly effects the level and content of corporate social disclosures when (Lebanese) public policy concerns exist (Lebanese telecom sector case).

Based on the case study of Lebanese Telecom Sector, I identified that the Lebanese government intervention in business reporting under political economy approach can be viewed as holistic and meaningful because it creates a potential and a motivation for asking for additional disclosures (of KPIs and QoS standards).
In addition, this perspective is affecting the whole telecom sector in Lebanon and more specifically the level and the content of the telecom company's (Internet Service Providers) disclosures which are also forming a part of the telecom sector.

5.1.2. Discussion of Research Questions # 2: What are the reasons, aims and consequences of the Lebanese Government decision to impose mandatory ad hoc business reporting measurements and disclosures on Telecom Companies for control and incentive purposes?

This question is intending to present Lebanese government intervention as a phenomenon and an interesting case because it addresses a government's call for more information on Telecom companies' "hidden" factors and wealth, which -through selected KPIs - has had the unintended consequence to bring about and make emerge a new knowledge and pattern of visibility on corporate intangibles in a region where official guidelines on IC Reporting are still absent. The movement of Lebanese government toward new rules and standards in a world driven today by intangible capabilities was detected in the research. Therefore, these new governmental practices registered in the research are considered important and vital for the telecom sector and are partially filling the gap of studies dealing with the technical contents of government intervention in business reporting.
There are several important reasons for Lebanese government intervention in the accounting and business reporting of telecom sector. First, I will expose the general reasons and findings regarding the Lebanese telecom sector which can be summarized as follows: Telecommunications are the second income-generator sector for the State Treasury after the Value Added Taxes (VAT) with net revenue of more than 1.4 billion USD today; the public sector is able and has the right to design and implement an effective intervention because they own the whole Network and the Mobile Operators MIC 1 and MIC 2 are 100% State-owned by the virtue of fiduciary contract. These

general reasons give the right to the government to intervene in the business reporting of their operations.

In addition, there are important reasons that can be studied within the context of Lebanon country model (Nobes, 2011) and the status quo of Lebanese accounting regulation and practices. According to Nobes (2011), there are some relevant points to consider when studying a country or a sector in a country dominated by some of the 4 financing systems (System I, II, II, and IV). The study shows that the Lebanese country telecom sector financing systems belong to system III because it is dominated by strong equity/insiders which can be justified by the government as the owner (state-owned Network) who is investing in equity and have long-term relationships with the two companies and this explains the absence of credits/insiders which implies the lack of demands for investor-oriented reporting (demand for detailed, audited, frequent, published accounting information). This approach supports and explains the reasons behind the absence of official and published financial statements for the two operator companies. As a consequence, in the absence of outside purpose, accounting serves its traditional purpose which is calculating prudently profit distribution and income tax calculation. As pointed out, it was predicted and justified the rationale behind government intervention in the business reporting of Lebanese Telecom companies. Accordingly, this shows that accounting was bounded in its scope to include intangibles and it was not the only focus of the government but instead, new forms or reports were included by the government to support its intervention and mission toward serving better the Lebanese community in the context of telecom state-owned sector. Furthermore, the problem of endorsing an important part of IFRS standards and the peculiarity and bounded aspects of traditional accounting have demonstrated in the case of Lebanese telecom sector that government intervention and initiatives in business reporting are seen as a necessary condition to optimize the allocation of resources under the public utility approach to best serve the Lebanese society.

Another important reason behind Lebanese government intervention can also be understood under the French colonial inheritance criterion which explains the major explanatory factor for the general system of financial reporting in Lebanese country. As a consequence, Lebanese accounting system, legal framework, and cultural factors are heavily influenced by the French country model and it is similar to the continental model

where businesses in Lebanon are closely connected to banks and statutory publication of annual reports, prudent accountancy procedures which are strictly regulated and also oriented to the needs of the Lebanese government. Similarly, Lebanese accounting is characterized by a structured framework which literally obeys to the rules laid down in the legislation and for that reason; accounting rules are approved at government level and represented by the Lebanese Ministry of Finance, and then introduced by the force of Commercial and Tax Law. Furthermore, the predominant use of accounting in Lebanon has been for the calculation of distributable income (Leuz et al., 1998; Watrin, 2001) and taxes payable (Haller, 1992; Eberhartinger, 1999, pp. 93-119). This is a valid reason for government intervention at reporting level because according to Puxty et al. (1987), Lebanese accounting regulation is regarded as legalistic and the accounting regulation framework relies upon the absolute application of the State principles Decrees, Code of Commerce, Laws, Ministerial Orders, and the enforced governmental measures represented by the KPI requirements and the Quality of Service “QoS” criteria and obligations that Telecom operators should comply with. Furthermore, Lebanese accounting regulation is regarded as corporatist because regulation involves a greater reliance upon the state principle of hierarchical control (compulsory measures) and also because the state incorporates organized interest groups from the private sector (an expert group called the “Lebanese Task Force” to work under her direct supervision) into its own centralized hierarchical system of regulation, in order to measure the performance of KPIs and QoS. Therefore, the government’s authority and hierarchical control of accounting rules and procedures were implemented through the Ministry of Finance, whilst the market and the community, evoked in Puxty et al. (1987)’s study, have been absent.

The interview report on Lebanese Telecom Sector revealed the actors involved in the process and the intervention by the state was described as follows:

The sector has been found entirely regulated by the State represented by the Ministry of Telecom that decrees the practices to be followed (production costs, selling prices, products, markets) and fixes compulsory measures to be respected, while providing also an enforcement and compliance mechanism. The Ministry of Telecom (MoT) has set and imposed a variable remuneration on the operators based on the execution of the 12 Quality of Services (QoS) objectives and appointed an independent company that is

specialized in the measurement of communications to monitor the KPIs on a daily, weekly and monthly basis, and that shall report its findings on a rolling basis to the MoT. The KPI parameters along with corresponding target levels are mandatory minimum standards that Service Providers shall comply with and the MoT may impose mandatory QoS improvements for failure to meet QoS requirements within the time frame stipulated by the authority. Consequently, the performance of service providers should be reviewed and compared to QoS and KPI targets based on a monthly reporting.

We should study also the effects of government intervention in the Lebanese Telecom Sector which are mainly based on the answers provided by the Questionnaires. Government intervention based on efficiency considerations is said to be very satisfying in terms of allocation, productivity in the short and long term. The effectiveness of "government interventions“ (including inspections, sanctions, and other forms of penalties) on the performance of regulated entities is not defined as critical, because quantitative and qualitative data sources (KPIs) are created, detected, measured, calculated, and assessed, and the KPIs intervention process is validated by studying how much the intervention affects positively the Telecom performance.

As we have seen, in Lebanon the state has centrally managed the economy using accounting as a tool, but there was not a market for accounting services until the release of Law no. 364/1994 (which governs the accounting profession in Lebanon).

Therefore, the Lebanese government intervention in terms of business reporting appears to have been justified by the incapacity of traditional accounting to provide the required information, knowledge and control level.

A general conclusive observation is to be taken into consideration that there might be a sharp contrast between the State as regulator of the Telecom Sector, to the benefit of the Lebanese community (and that is why KPIs and QoS have been imposed on industry actors), and the State as tax collector which draws a very large chunk of its resources from the very Telecom sector (this pushing towards higher service costs for customers and, consequently, higher tax revenues).

The study also reveals that reporting regulation of Lebanese Telecom is far from traditional accounting and much closer to Business reporting, because it focuses on management performance measurements rather than accounting measurement

techniques, in the effort to implement a new behavioral model which is wider and richer than the traditional accounting one, based on financial numbers.

5.2 Implications of the Study, limitations and suggestions for future research

Considering the fact that much information regarding intangibles is today emerging, this study has aimed to provide new insights into how government in the Middle East Region can be aware of the benefits of IC Reporting and of incorporating official guidelines on voluntary basis in order to encourage companies using IC Reporting.
One of the major implications of this study is that government intervention in the business reporting of Lebanese telecom companies has provoked the request for information about intangibles which of course has created unintentionally a greater visibility of Intellectual Capital Reporting within the organization and for the government. Within the same context of IC Reporting, the use of Key Performance Indicators within the field studies of telecom companies was regarded as important by the Lebanese government because there was a pressing need from the latter to ensure that KPIs should be disclosed in the business report and to be submitted (by the two telecom operator firms) to the Ministry of Telecom within a limited time frame. Even these interventions were mainly confined to an operational level, and were not common at the corporate level or in the annual report (absence of official guidelines on IC Reporting in Lebanon), the government created an enforcement and compliance mechanism.
The findings of the case study support the view that government intervention in business reporting on Lebanese Telecom sector had positive implications on the performance of the sector. This paper has responded to the growing need to illustrate how organizations manage and report their IC, how they benefit from doing so, and how they enhance the utilization of their knowledge resources. However more researches are needed in the context of government intervention in the field of business reporting in order to steer the process of value creation in the Middle East Region.

The main limitation of the study was that the official publication of Financial Statements for the Mobile and Fixed network companies' MIC1, MIC2, and OGERO fixed-line Company are not available in Lebanon due to the fact that there is not any law that

enforce the publication and filing of the legal entity. In addition to the lack of available financial data, the lack of poor research studies on the topic of (Lebanese) business reporting was identified also as a second limitation to the study. These limitations are due to the banking secrecy law applicable in Lebanon, and with the absence of centralized credit reporting for stock risks; consequently private companies do not release its financial statements to the public. In addition, the Lebanese Central Administration for Statistics (CAS) suffered and still suffers from a chronic lack of resources, availability and quality of national accounts, trade data and social statistics.

This study has contributed to both the theory and literature of government intervention in business reporting in the Developing Countries as well as in the Middle East Countries.
Further research from multiple perspectives could also be conducted to determine the effectiveness of government intervention in the accounting and business reporting under the political economy approach in order to understand the rationale of government intervention in this field.
It seems that the conceptual framework applied in the Lebanese case study for understanding Key Performance Indicators and their disclosure (which is based on the Concept Paper of WICI Network titled "KPIs in Business Reporting" as well as WICI KPIs for Telecommunication sector) may offer important and valuable results to favor and improve the quality of corporate business reporting in the Middle East Region.
As it is common in all national approaches, the stimulation of IC Reporting has started with a sequence starting from the internal implementation of IC awareness, followed by improving IC reporting competencies and IC management routines that should provide the basis for the use of IC Reporting (RICARDIS, 2006).

For future research, it is suggested that a greater emphasis on Intellectual Capital (because it is not very well known in Lebanon) and the potential of IC Reporting will address the need for companies to be aware of the importance of their intangibles, or Intellectual Capital, both from an internal management perspective and from the valuable "option" that this internal perspective provides in terms of external reporting (RICARDIS, 2006). For that reason, the thesis could set the rationale for IC Reporting in Lebanon.

One of the contributions of this thesis can be considered that it will add knowledge to the stock of information on the Middle East Region that lacks knowledge of literatures on intangibles and particularly the management of Intellectual Capital (or IC Reporting), which will surely be valuable for further research.

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Appendices

Appendix Independent auditor's report	A
Appendix Statement of Financial Position or Balance Sheet	B
Appendix Statement of Activities or Income Statement	C
Appendix Statement of Cash Flows	D
Appendix Notes to the Financial Statements	E
Appendix Voluntary Guidelines on IC Reporting	F

Appendix A- Independent auditor’s report

Independent Auditor's Report
to the Board of Trustees of The American University of Technology

We have audited the accompanying balance sheet of The American University of Technology as of 30 September 2009 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in paragraphs (a) to (d) below, we conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

(a) The University does not maintain a fixed assets register showing the details of the assets owned including date of purchase, original cost, depreciation for the year, accumulated depreciation and impairment loss if any. Accordingly, we were not able to verify the physical existence of the recorded assets and their validity, completeness and valuation.

(b) We have requested but were not provided with a letter from the University's lawyers with regard to outstanding legal cases to which the Company is party. Accordingly, we are unable to determine whether there is any unrecorded liability.

(c) We have noted that the University's accounts receivable showed an un-reconciled difference of approximately LL 748 million between Banner records (the registration system) and the accounting records. This difference arose from transactions prior to September 2007.

(d) The University has not provided for fines arising from undeclared salaries to both the Ministry of Finance and the National Social Security Fund. The University has the intention to pay these liabilities once instructions for 90% exemption from realization and delay fines are issued from the Ministry of Finance and a decree is issued for exemption from delay fines on social security contributions.

In our opinion, except for the effects of such adjustments as might have been determined to be necessary had we been able to satisfy ourselves as to the matters discussed in paragraphs (a) to (d) above, the Statement of Position presents fairly, in all material respects, the financial position of the University as of 30 September 2009 and its activities for the year then ended in conformity with International Financial Reporting Standards.

We draw attention to that the financial statements have been prepared on the going concern basis. The validity of this assumption is dependent on the University's ability to continue secure adequate financing from its related parties or from third parties or to continue to achieve a substantial growth in number of students together with improvement in its corporate governance and risk management methodologies.

Beirut, Lebanon
20 January 2010

Appendix B-Statement of Financial Position or Balance Sheet

Statement of financial position
at 30 September 2009

	Notes	2009 LL'000	2008 LL'000
Assets			
Non-current assets			
Property and equipment	5	**9,878,425**	9,817,810
Current assets			
Inventories		**6,733**	6,691
Prepaid expenses and other assets	6	**237,587**	26,787
Accounts receivable	7	**5,219,684**	4,061,203
Cash and cash equivalents		**45,947**	38,786
		5,509,951	4,133,467
Total assets		**15,388,376**	13,951,277
Liabilities and net assets			
Net assets			
Capital		**12,000**	12,000
Shortage of revenues to expenses	9	**(4,646,004)**	(5,668,547)
Mrs. Ghada Hinain account	10	**7,306,352**	7,496,375
Total net assets		**2,672,348**	1,839,828
Non-current liabilities			
Loans from banks	11	**2,803,256**	2,053,043
Provision for contingencies	12	**539,571**	541,731
Provision for end of service indemnity	13	**501,572**	336,647
		3,844,399	2,931,421
Current liabilities			
Due to banks	14	**1,419,635**	1,342,264
Loans from banks	11	**345,000**	962,129
Accounts and other payables	15	**2,340,815**	3,028,009
Taxes and social security contributions payable	16	**1,471,115**	1,199,139
Deferred revenues	17	**3,293,540**	2,629,925
Other accounts	8	**1,524**	18,562
		8,871,629	9,180,028
Total liabilities		**12,716,028**	12,111,449
Total liabilities and net assets		**15,388,376**	13,951,277

The financial statements on pages 4 to 20 were approved by the Board of Trustees on 20 January 2010 and were signed on its behalf by:

Appendix C-Statement of Activities or Income Statement

Statement of activities
for the year ended 30 September 2009

	Notes	2009 LL'000	2008 LL'000
Revenues and gains:			
Tuition fees		**6,844,001**	5,816,706
Student fees		**1,927,445**	768,372
Less: Student financial aid		**(1,687,648)**	(1,004,815)
Net student tuition and fees	18	**7,083,798**	5,580,263
Contributions received from related parties	19	-	1,733,625
Donations received from a third party	19	**263,813**	-
Auxiliary activities		**27,461**	10,648
Other income, net		**366,645**	469,708
Total revenues and gains		**7,741,717**	7,794,244
Expenses and losses:			
Education, general and administrative expenses	20	**(1,751,784)**	(1,862,566)
Salaries and related benefits	21	**(3,879,202)**	(3,591,103)
Total education and general expenses		**(5,630,986)**	(5,453,669)
Depreciation expense	5	**(526,375)**	(801,081)
Interest and other financial charges	22	**(236,199)**	(783,381)
Provision for contingencies expense	12	-	(404,528)
Doubtful debt expense	7	**(68,343)**	(293,990)
Taxes, fees and other similar charges		**(66,436)**	(26,623)
Provision for end of service indemnity	13	**(190,835)**	(6,377)
Total expenses and losses		**(6,719,174)**	(7,769,649)
Surplus of revenues over expenses for the year	9	**1,022,543**	24,595

Appendix D-Statement of Cash Flows

Statement of cash flows
for the year ended 30 September 2009

	Notes	2009 LL'000	2008 LL'000
Cash flows from operating activities			
Surplus of revenues over expenses for the year		**1,022,543**	24,595
Adjustments for:			
Depreciation	5	**526,375**	801,081
Doubtful debt expense	7	**68,343**	293,989
Provision (release) charge for contingencies	12	-	404,528
Provision for end of service indemnity	13	**190,835**	6,377
Net change in other accounts	8	**(17,038)**	-
Decrease (increase) in working capital:			
Increase in accounts receivable	7	**(1,226,825)**	(1,841,275)
(Increase) decrease in prepayment and other assets	6	**(210,800)**	215,278
Increase in inventory		**(42)**	-
(Decrease) increase in accounts payable	15	**(687,194)**	201,382
Increase in taxes and NSSF contributions payable	16	**271,976**	372,367
Increase (decrease) in deferred revenue	17	**663,615**	1,715,269
Decrease in end of service indemnity provision	13	**(25,910)**	(138,402)
Decrease in provision for contingencies	12	**(2,160)**	(12,512)
Net cash provided from by operating activities		**573,718**	2,042,677
Cash flows from investing activities:			
Purchases of property and equipment	5	**(586,989)**	(419,950)
Cash flows from financing activities:			
Decrease (increase) in bank borrowings	11& 14	**210,455**	(1,605,742)
Increase in Mrs. Ghada Hinain account	10	**(190,023)**	4,886
Net cash provided from (used in) financing activities		**20,432**	(1,600,856)
Net increase (decrease) in cash and cash equivalents		**7,161**	(21,871)
Cash and cash equivalents at beginning of year		**38,786**	16,915
Cash and cash equivalents at end of year		**45,947**	38,786

Principal non cash transactions in 2008

The principal non cash transactions relate mainly to interest written off from the cost of land of LL 1.56 billion (note 5), capitalised interest to the cost of building of LL 724 million (note 5), transfer from taxes and social security contributions payable to provision for contingencies of LL 149 million (note 12) and transfer from provision for contingencies of LL 179 million to provision for doubtful debt (note 12). Other non cash transactions include the prior period adjustments of LL 2.66 billion (note 9).

Appendix E-Notes to the Financial Statements

1 General information (continued)

The University is governed by a Board of Trustees, an Administrative Council, an Academic Council and an Administrative Affairs Committee.

2 Summary of significant accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards. A summary of the more important accounting policies, which have been consistently applied, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

The statement of activities is a statement of financial activities related to the current period, it is not a performance measure and it does not support to present the net income or loss for the period as would a statement of income for a business enterprise.

Going concern

At 30 September 2009 the University's current liabilities exceeded its current assets by LL 3.1 billion. The majority owner has confirmed her willingness to extend financial support to the University as necessary to enable it to continue in operation for the foreseeable future.

Computer software

The initial cost of major computer software is recognized as an asset and is amortized on a straight-line basis over its estimated useful life, which is usually 5 years.

Property and equipment

Property and equipment are stated at cost net of accumulated depreciation and provision for impairment, if any.

Depreciation is charged so as to write off the cost over the estimated useful lives of the related depreciable assets using the straight-line method and the following annual rates:

	%
Buildings	2.5
General installation	10
Furniture, fixtures and equipment	8
Computer equipment	20

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains or losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

2 Summary of significant accounting policies (continued)

Interest costs on borrowings to finance the construction of property and equipment are capitalised, during the period of time that is required to complete and prepare the assets for its intended use, as part of the cost of the asset.

Maintenance, repairs and renewals are generally charged to expense during the financial period in which they are incurred. However, major renovations are capitalised and depreciated over their expected useful lives.

Inventories

Inventories represent library books and are valued at the lower of cost or net realisable value. Cost is determined on the average cost basis and comprises the purchase price.

Accounts receivable

Accounts receivable are stated at their nominal value, as reduced by appropriate allowances for estimated irrecoverable amounts.

Accounts payable

Accounts payable are stated at their nominal value.

Provision for end of service indemnity

Provision for end of service indemnity is made in accordance with national social security fund legislation and is based on current remuneration rates and cumulative service at the balance sheet date less amounts actually contributed to the fund.

Provision for contingencies

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Contributions received

Contributions received are recognised in the statement of activities to match them with the financial aids and expenditures towards which they are intended to compensate.

Revenue recognition

Student tuition and fees income is recognized over the related period of academic instruction. The University's financial year is consistent with its academic year. Interest income is accrued on a time basis, by reference to the principal outstanding and the interest rate applicable.

Operating leases

Leases of assets under which all risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the lease term.

2 Summary of significant accounting policies (continued)

Functional and presentation currency

The financial statements are presented in Lebanese Pounds (LL) which is the official reporting currency, whereas the functional currency is the US Dollar.

Foreign currency transactions and balances

Foreign currency transactions are translated into Lebanese Pounds at the rate prevailing on the transaction date. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the statement of financial position date. Differences on exchange are dealt with in the statement of activities.

Cash and cash equivalents

For purposes of the statement of cash flows, all bank and cash balances with an original maturity of less than three months are considered to be cash and cash equivalents.

Financial instruments

Financial instruments carried on the balance sheet include bank balances, accounts receivable, borrowings and accounts payable. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3 Financial risk management

Financial risk factors

The University's activities expose it to a variety of potential financial risks, including liquidity risk, the concentration of credit risk and the effects of changes in foreign currency exchange rates and interest rates. The University's overall risk management programme focuses on minimising potential adverse effects of financial risk on the University's performance.

(i) Foreign exchange risk

The University has no major exposure to foreign currencies because the majority of its foreign currency transactions are denominated in US Dollars. There has been no change in the rate of the foreign exchange between the US Dollar and the Lebanese Pound during the year (US$ 1 = LL 1,507.5).

(ii) Interest rate risk

The University's income and operating cash flows are substantially independent of changes in market interest rates. All of the University's borrowings are at fixed interest rates. The University has no significant interest-bearing assets.

3 Financial risk management (continued)

(iii) Credit risk

The University has no significant concentration of credit risk. Financial assets that potentially subject the Company to credit risk consist principally of tuition and fees receivable from students.

(iv) Liquidity risk

The Company has reached the limit of its credit line facilities and is therefore subject to liquidity constraints.

(v) Fair values of financial assets and liabilities:

The carrying book values of financial assets and liabilities are not materially different from their fair values applicable at the statement of financial position date.

4 Critical accounting estimates and judgements

In the application of the accounting policies described in Note 2, management is required to make judgments, estimated and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimated and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimated are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

5 Property and equipment

	Land & buildings LL'000	General installations, furniture & office equipment LL'000	Computer equipment & software LL'000	Total LL'000
Cost				
1 October 2008	8,442,288	3,250,981	1,907,594	13,600,863
Additions	366,667	145,942	74,380	586,989
30 September 2009	**8,808,955**	**3,396,923**	**1,981,974**	**14,187,852**
Accumulated depreciation				
1 October 2008	(665,360)	(1,319,082)	(1,798,610)	(3,783,052)
Depreciation charge	(148,553)	(262,479)	(115,343)	(526,375)
30 September 2009	**(813,913)**	**(1,581,561)**	**(1,913,953)**	**(4,309,427)**
Net book value				
At 30 September 2009	**7,995,042**	**1,815,362**	**68,021**	**9,878,425**
At 30 September 2008	7,776,928	1,931,899	108,983	9,817,810

(i) Capitalised interest written off

Capitalised interest of LL 1.56 billion, which was allocated to the cost of land in 2007, was incurred on a loan that was taken to finance the construction of the Agora building in Halat. In accordance with IAS 23 "Borrowing Costs", management have written off the capitalised interest on land and have capitalised the portion of interest (LL 724 million) incurred on the building itself in 2008. These transactions did not involve movements in cash and is therefore not reflected in the statement of cash flows for the year ended 30 September 2008.

(ii) Ownership of the University's plots

The University had financed the acquisition of its plots although the plots have been registered either in the name of the parent entity "The Lebanese American Language Center and American Universal College" or in Mrs. Ghada Hinain personal name.

(iii) Guarantee against bank borrowings

The University's properties are subject to a first degree mortgage as a guarantee against bank borrowings.

(iv) Computer software

The cost of computer software and equipment includes the cost of software applications amounting to approximately LL 630 million.

6 Prepaid expenses and other assets

	2009 LL'000	2008 LL'000
Prepaid miscellaneous expenses	**211,730**	5,195
Prepaid lawyer fees	**8,473**	-
Deposits	**7,445**	7,580
Prepaid insurance	**5,163**	4,923
Other deferred charges	**2,733**	2,993
Prepaid rent	**2,040**	2,929
Prepaid printing expenses	**3**	3,167
	237,587	26,787

7 Accounts receivable

	2009 LL'000	2008 LL'000
Students' tuition and fees	**5,117,390**	4,008,596
Other receivables	**102,294**	52,607
	5,219,684	4,061,203

At 30 September 2009 students' tuitions and fees are stated net of a provision of LL 315 million (30 September 2008: LL 247 million). Doubtful students' receivables are related to graduated students who already have taken their degree certificates from the registration department of the University. Other receivables are stated net of a provision of LL 226 million (30 September 2008: LL 226 million).

Provision for doubtful debts activity is reflected below:

	2009 LL'000	2008 LL'000
Balance at beginning of year	**473,050**	-
Charge for the year (Students' tuitions and fees)	**68,344**	68,343
Charge for the year (Other receivables)	-	225,646
Transfer from provision for contingencies	-	179,061
Balance at end of year	**541,394**	473,050

8 Other Accounts

Other accounts represent inter-branch balances between the four campuses of the University.

9 Shortage of revenue to expenses

The movement in shortage of revenue to expenses account is as follows:

	2009 LL'000	2008 LL'000
Balance at beginning of year:		
As originally reported	**5,668,547**	3,035,801
Add: prior period adjustments for errors in recording:		
Tuition fees	-	809,280
Interest expense on loans from individuals	-	492,952
Interest expense on loans from banks	-	347,429
Consulting fees	-	243,167
Non-recoverable value added tax receivable	-	237,365
Registration fees	-	105,375
Rent expense	-	96,649
Salary expenses	-	44,697
Other and miscellaneous expenses	-	280,427
Total prior period adjustments	-	2,657,341
As restated	**5,668,547**	5,693,142
Surplus of revenue over expenses for the year	**(1,022,543)**	(24,595)
At end of year	**4,646,004**	5,668,547

The prior period adjustments did not involve cash movements in cash and therefore not reflected in the statement of cash flows.

11 Loans from banks

	2009 LL'000	2008 LL'000
Non-current		
Loans from banks	**2,803,256**	2,053,043
Current		
Loans from banks	**345,000**	962,129
	3,148,256	3,015,172

(iv) First debt rescheduling agreement in February 2005
On 22 February 2005, the University and the bank signed a debt rescheduling agreement for the outstanding balances for the three loans previously granted along with related interest as follows:

	LL'000
First and second loan	**423,984**
Third loan	**2,108,457**
	2,532,441

The above rescheduled loans bear interest of Libor +6.5% with minimum of 9% and 2 per thousand per quarter. The first and second loans (rescheduled over 8 years starting from 30 November 2004) and the third one (rescheduled over 12 year starting from 30 November 2004).

(v) Second debt rescheduling agreement in August 2009
Subsequent to the balance sheet date, a new loan rescheduling agreement was reached with the bank in August 2009 due to the failure of the University to meet its obligations in accordance with the first debt rescheduling agreement.

The monthly instalments payable by the University to the bank are summarised as follows:

	Number of months	Monthly instalment US$	Total US$
From 25 October 2009 to 25 May 2010	8	25,000	200,000
From 25 September 2010 to 25 May 2012	18	30,000	540,000
From 25 September 2012 to 25 December 2021	85	33,000	2,805,000
On 25 January 2022	1	36,761	36,761
			3,581,761

12 Provision for contingencies

	2009	2008
	LL'000	LL'000
Provision for contingencies	**539,571**	541,731

Provision for contingencies activity is reflected below:

Balance at beginning of year	**541,731**	179,302
Charge for the year	-	404,528
Paid during the year	**(2,160)**	(12,512)
Transfer to provision for doubtful receivables (note 7)	-	(179,061)
Transfer from taxes and social security contributions payable	-	149,474
Balance at end of year	**539,571**	541,731

The University's accounts were reviewed by the National Social Security Fund ("NSSF") inspectors up to September 2003. The social security declaration of the University remains subject to examination and acceptance by the social security authorities since September 2003. Open tax years that remain subject to examination and acceptance by the fiscal authorities are the years from 2005 to 2009.

13 Provision for end of service indemnity

	2009	2008
	LL'000	LL'000
Provision for end of service indemnity	**501,572**	336,647

Accrued employees end of service indemnity is set up to meet the University's liability for the end of service indemnity due to administration employees and teaching faculty in accordance with local regulations and the University's internal policies. During 2009, the charge for the year amounted to LL 191 million and indemnities paid amounted to LL 26 million.

14 Due to banks

	2009	2008
	LL'000	LL'000
Due to banks	**1,419,635**	1,342,264

Due to banks includes outstanding checks payable to third parties who have provided the University with funds to support it during its illiquidity period.

15 Accounts and other payables

	2009	2008
	LL'000	LL'000
Accounts payable	**1,304,381**	1,983,217
Notes payable	**597,022**	517,249
Due to faculty members	**253,947**	291,275
Due to employees	**171,215**	190,688
Other payables	**14,250**	45,580
	2,340,815	3,028,009

16 Taxes and social security contributions payable

	2009 LL'000	2008 LL'000
Tax on salaries payable	**725,778**	565,415
Social security contributions payable	**745,337**	633,724
	1,471,115	1,199,139

17 Deferred revenues

	2009 LL'000	2008 LL'000
Deferred revenues	**3,293,540**	2,629,925

Deferred revenues represent collections on the Fall 2010 pre-registration of courses taking place in October 2009.

18 Net student tuition and fees

Student tuition and fees revenues and related financial aid expenses are as follows:

	2009 LL'000	2008 LL'000
Tuition fees	**6,844,001**	5,816,706
Student fees	**1,927,445**	768,372
Less: Student financial aid	**(1,687,648)**	(1,004,815)
	7,083,798	5,580,263

18 Net student tuition and fees (continued)

Student fees consist of the following:

	2009 LL'000	2008 LL'000
Registration	**1,451,084**	508,325
Application	**55,282**	48,080
Entrance exams	**29,726**	34,960
Late payment	**3,500**	12,929
Late registration	-	5,273
Other educational revenues	**387,853**	158,805
	1,927,445	768,372

Student financial aid consists of the following:

	2009 LL'000	2008 LL'000
Work study discount	**1,318,290**	806,561
President's grant	**204,630**	116,207
Staff discount	**62,722**	29,048
Corporate discount	**52,758**	22,241
Left students discount	-	-
Other discounts	**49,248**	30,758
	1,687,648	1,004,815

19 Contributions and donations received

	2009 LL'000	2008 LL'000
Contributions received from Mrs. Ghada Hinain	-	1,733,625
Donations received from a third party	**263,813**	-

20 Education, general and administrative expenses

Education, general and administrative expenses, classified by their nature, comprise the following:

	2009 LL'000	2008 LL'000
Temporary personnel (other non-academic)	**258,347**	140,831
Rent charges	**204,353**	347,237
Repairs and maintenance	**179,743**	65,052
Public relations and commencement expenses	**178,583**	104,053
Electricity, fuel and water	**145,438**	176,754
Exhibitions and events	**118,138**	9,670
Student activities expenses	**115,490**	131,874
Professional and consulting fees	**104,839**	200,399
Post, telephone and internet	**97,124**	156,799
Marketing and promotion	**95,490**	12,136
Accessories	**51,243**	48,589
Insurance premiums	**45,717**	38,296
Electrical and other supplies	**20,237**	247,485
Subscriptions and periodicals	**4,691**	6,314
Computer software	**112**	21,035
Books	-	136,109
Alumni affairs	-	16,582
Other miscellaneous expenses	**132,239**	3,351
	1,751,784	1,862,566

21 Salaries and related benefits

The University employs around 43 full-time administrative employees, and 13 full-time and around 43 part-time faculty members, in addition to contractual workers and student work assistants.

	2009 LL'000	2008 LL'000
Basic Salary – full time faculty members	**955,658**	1,019,269
Basic Salary – part time faculty members	**1,359,067**	1,139,583
Basic Salary – full-time administrative employees	**1,082,067**	843,827
Basic Salary – contractual	**154,210**	242,756
Social security contributions	**173,292**	146,851
Other benefits	**47,880**	126,302
Transportation allowance	**107,028**	72,515
	3,879,202	3,591,103

22 Interest and other financial charges

	2009 LL'000	2008 LL'000
Interest expense on bank borrowings	**160,677**	396,283
Interest expense on loans from individuals	**69,049**	377,332
Other financial charges	**6,473**	9,766
	236,199	783,381

Appendix F- Voluntary Guidelines on IC Reporting

Origin	Name	Key Focus	Benefits	Links
Austria	ARC IC Report	Structured presentation of goals, potentials, processes, and resuming intangible & tangible results.	Holistic view on the "intellectual status and current 'value'" of the organization. Justification of tax payers' investments in public R&D.	www.arcs.ac.at/publik/fulltext/wissensbilanz/ARCS_Wissensbilanz_1999.pdf
Denmark	Danish Guidelines	Portfolio of investments in, and effects of, knowledge resources. Relates practices and purposes of IC resources.	Supports IC management and reporting. Develops IC indicators. Identifies properties of IC Statements for analysis and benchmarking.	www.videnskabsministeriet.dk/icaccounts/
Europe	MERITUM	Differences between intangible resources and intangible activities.	Supports IC management and reporting. Provides a set of characteristics that indicators should have.	www.uam.es/meritum
France	IC-dVAL®	Performance indexes and IC value.	Support management and IC Reporting. Building awareness of IC. Internal and external signalling of IC value and performance.	www.icforcommunities.com
Germany	Wissensbilanz	IC processes	Supports management decision making	www.akwissensbilanz.org
Iceland	PiP project	Indicators	Harmonized indicators that facilitate benchmarking	http://nhki.si.is/
Spain	Intellectus Model ®	Dividing IC into its minimum components	Adaptability to each organisation	http://www.ofenhandwerk.com/oklc/pdf_files/K-4_deCastro.pdf
Sweden	IC-Rating™	IC position	Visibility of IC, finds areas to improve and enables benchmarking	www.intellectualcapital.se