Comprehensive Journal of Science
Volume (10), Issue (38), (Dec, 2025)
ISSN: 3014-6266

مجلة العلوم الشاملة
المجلد (10) العدد 38 ديسمبر 2025
ردمد: 3014-6266

Financial Disclosure Quality in Libyan Construction SMEs: Evidence from a Disclosure-Index Assessment

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تاريخ الاستلام:2025/12/7– تاريخ المراجعة: 2025/12/11– تاريخ القبول: 2025/12/18– تاريخ للنشر : 2025/ 12/24

Abstract
Small and medium-sized construction firms play a critical role in Libya’s infrastructure development and economic activity, yet the sector has experienced persistent instability and high failure rates. This study examines the quality of financial disclosure among Libyan construction SMEs and explores its implications for organizational performance readiness. Using a disclosure-index methodology aligned with international accounting standards, annual reports of 45 privately owned construction firms were analyzed. The results reveal moderate and uneven disclosure levels, re-flecting weak reporting discipline and limited transparency. The study argues that deficiencies in financial disclosure are symptomatic of broader weaknesses in internal process standardization, doc-umentation, and control practices. Financial disclosure is therefore positioned as an outcome of organizational maturity and a prerequisite for institutional credibility and sustainable performance in the Libyan construction sector.
Keywords: Libya; construction SMEs; financial disclosure; disclosure index; performance readiness; process standardization.

Introduction

The construction sector constitutes a fundamental pillar of Libya’s economic and social development through its contribution to infrastructure provision, employment generation, and post-conflict recon-struction. Small and medium-sized enterprises (SMEs) dominate construction activity in Libya and are responsible for delivering a substantial share of public and private projects. Despite this importance, the sector has experienced persistent instability and underperformance at the firm level.

Although political and economic disruptions have intensified these challenges, empirical evidence in-dicates that internal organizational weaknesses—particularly in management systems, financial control, and documentation discipline—play a decisive role in firm sustainability (Tahir, 2015; Muftah, 2024). Weak financial disclosure is frequently associated with reduced transparency, constrained access to fi-nance, and limited stakeholder confidence (Ellabbar and Havard, 2005a; Abuostala, 2022).

Research on the Libyan construction industry has largely focused on project-level challenges, while firm-level organizational readiness remains less operationalized in measurable terms. In this study, financial disclosure quality is treated as a technical output of internal organizational processes and a proxy indicator of performance readiness. The rationale is that disclosure completeness depends on the quality of underlying records, cost-tracking routines, accounting information systems, and internal review procedures. Where these are weak, disclosure output becomes incomplete and inconsistent.

Research aim: This study assesses the quality of financial disclosure among small and medium construc-tion firms in Libya and examines how disclosure practices reflect broader issues of process standardization and organizational performance readiness.

Study contribution: The study contributes by (i) applying a structured disclosure-index method to Libyan construction SMEs, (ii) presenting distributional and category-based disclosure patterns, and (iii) interpreting disclosure quality as a technical indicator of organizational readiness grounded in process and documentation maturity.

1 Literature Review

1.1 Construction SMEs in the Libyan context

Construction SMEs in Libya operate within an environment characterized by institutional fragility, weak regulatory enforcement, and constrained access to formal finance. Libyan academic research highlights inadequate managerial capacity and weak organizational structures as major contributors to SME in-stability (Abdulwahab and Gheriani, 2019; Gheriani, 2020). In the construction sector, operational performance is frequently limited by deficiencies in planning, cost control, and documentation, which weaken coordination and corrective actions during project execution (Tahir, 2015; Saleh and Benhamida, 2022).

In practical terms, construction SMEs often face constrained resources for formal systems develop-ment. Where project control is largely manual and accounting is performed for compliance rather than management, financial statements may omit supporting notes and structured disclosures that would otherwise explain key accounting policies, asset valuation approaches, and liquidity positions. Such con-ditions are relevant because construction business models rely on cash flow timing, retention, and claims management; limited disclosure of these items reduces transparency and complicates risk assessment by external parties.

1.2 Financial disclosure practices in Libya

Financial disclosure practices in Libya have been examined primarily from an accounting and trans-parency perspective. Comparative and local evidence reports low and uneven disclosure levels among Libyan firms, including construction-related entities, which suggests partial compliance rather than com-prehensive reporting (Ellabbar and Havard, 2005a,b). More recent work indicates that disclosure quality in Libyan firms remains constrained by internal reporting capacity, limited training, and weak accounting systems (Abuostala, 2022; Faraj and Omar, 2020).

Libyan-focused studies further suggest that gaps in disclosure are not random; instead, they follow systematic patterns in which basic statements are often available, while explanatory notes and cash flow information are frequently missing (Elshaari, 2021). This is significant because the informative value of financial reports depends on completeness: users require not only totals, but also accounting policies, assumptions, and supporting schedules that enable interpretation and comparison.

1.3 Process standardization and performance readiness

Process standardization refers to the formalization and consistent application of procedures across orga-nizational functions such as estimating, project control, and financial reporting. Standardized processes increase information visibility, accountability, and coordination in construction SMEs (Saleh and Ben-hamida, 2022). Studies in Libya emphasize that weak integration between project execution data and accounting systems undermines cost visibility and managerial oversight (Muftah, 2024; Tahir, 2015). In this context, performance readiness can be understood as an organization's capacity to operate trans-parently, manage resources effectively, and sustain operations under uncertainty. Financial disclosure quality emerges as an observable outcome of this readiness rather than as an isolated compliance activity (Omar and Faraj, 2019; Elshaari, 2021).

A practical implication is that disclosure quality can be improved through upstream operational improvements. For example, standardized routines for (i) recording certified work, (ii) tracking variations and claims, and (iii) documenting procurement and equipment costs increase data completeness, which in turn improves the feasibility of producing consistent financial statements and disclosures.

1.4 Summary of research gap

Despite contributions from Libyan scholarship on disclosure and SME constraints, sector-specific, index-based evidence focusing on construction SMEs remains limited. This study addresses that gap by quan-tifying disclosure levels across firms and analyzing category-level disclosure strengths and weaknesses. Such evidence provides a technical baseline that can support further research linking disclosure outcomes to organizational characteristics and information system maturity.

2 Literature Review

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3 Results

This section presents the empirical findings derived from the disclosure index analysis. The results are reported using descriptive statistics, frequency distributions, and category-level comparisons to illustrate the structure and variability of financial disclosure practices among the sampled Libyan construction SMEs.

3.1 Disclosure Index Statistics

Application of the disclosure index produced disclosure scores ranging from approximately 34% to 72%, with a mean disclosure level of about 50%. The inter-firm spread exceeds 38 percentage points, indicating substantial heterogeneity in financial reporting practices across the sample.

Table 2 summarizes the descriptive statistics of disclosure scores.

Table 2: Disclosure Index Descriptive

Statistics Statistic	Value
Sample size	45 firms
Minimum disclosure score	∼34%
Maximum disclosure score	∼72%
Mean disclosure score	∼50%
Range	∼38 percentage points

3.2 Distribution of Disclosure Levels

Disclosure scores were classified into five bands. The majority of firms fall within the 40–60% disclosure range, indicating partial compliance with disclosure requirements. Very few firms achieve disclosure levels above 70%.

Table 3 presents the frequency distribution of firms across disclosure bands, while Figure 1 illustrates the overall distribution pattern.

Table 3: Distribution of Firms by Disclosure Level

Disclosure Level (%)	Firms	Percentage
< 40	6	13.3%
40–<50	14	31.1%
50–<60	21	46.7%
60–<70	3	6.7%

≥ 70	1	2.2%
Total	45	100%

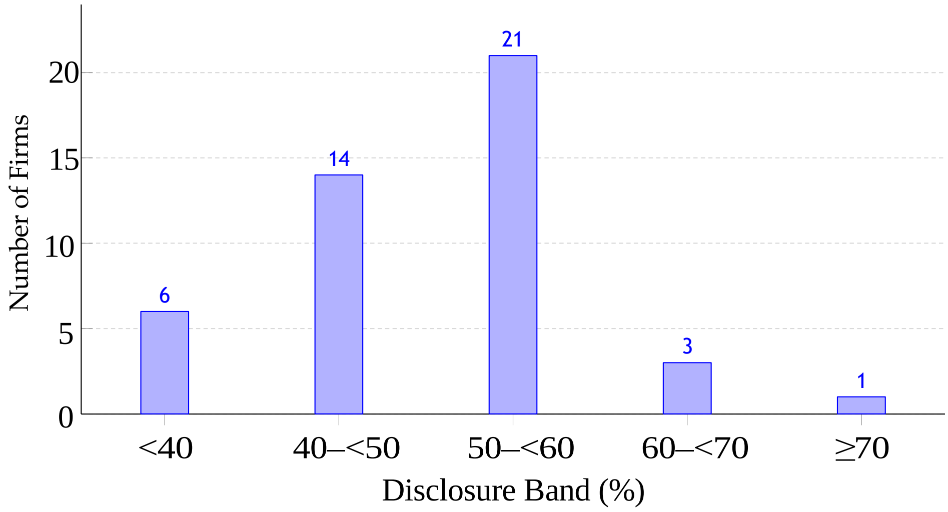

Figure 1: Frequency distribution of disclosure index scores (by bands).

3.3 Disclosure by Financial Statement Category

Disclosure performance varies across financial statement categories. Balance sheet disclosures exhibit the highest average disclosure levels, while cash flow statement disclosures perform weakest.

Table 4 compares average disclosure performance across categories.

Table 4: Average Disclosure Performance by Category

Disclosure Category	Performance Level	Rank
Balance sheet	High	1
Accounting policies	Moderate	2
Income statement	Low–moderate	3
Cash flow statement	Low	4

3.4 Intra-Sample Variability

Substantial variability is observed among firms with comparable operational scale. Firms of similar size demonstrate disclosure differences exceeding 20 percentage points, indicating that disclosure quality is influenced more by internal reporting practices than by firm size alone. This suggests that disclo-sure outcomes are driven by differences in documentation discipline, accounting procedures, and report preparation processes across firms.

3.5 Completeness of Financial Reporting

While balance sheets and income statements are almost universally present, complete financial reporting sets are uncommon. Supporting notes, detailed accounting policies, and cash flow statements are fre-quently missing, limiting the analytical usefulness of financial reports. This structural limitation reduces the ability of report users to evaluate liquidity position, working capital dynamics, and cash conversion patterns.

3.6 Structural Summary of Results

The technical analysis indicates that: (i) disclosure compliance is partial rather than comprehensive; (ii) reporting practices vary widely across firms; (iii) balance sheet items dominate disclosure practices; (iv) liquidity-related disclosures are structurally weak; and (v) disclosure quality reflects internal organiza-tional discipline.

4 Discussion

The observed disclosure patterns indicate moderate overall reporting completeness with high dispersion, consistent with earlier evidence that disclosure among Libyan construction companies is frequently lim-ited (Ellabbar and Havard, 2005a,b). Category-level imbalance, particularly weak cash flow disclosure, aligns with broader Libyan and regional discussions emphasizing that reporting quality is constrained by information availability and internal documentation systems (Faraj and Omar, 2020; Elshaari, 2021).

4.1 Interpretation: disclosure as an outcome of internal systems

From a process perspective, disclosure output can be interpreted as an outcome of organizational matu-rity. Firms with stronger standardized procedures and more effective accounting information systems are better positioned to generate complete and consistent reporting (Omar and Faraj, 2019; Saleh and Ben-hamida, 2022). In this sense, disclosure quality provides a technical indicator of performance readiness rather than a direct measure of profitability. The findings are therefore consistent with the view that improvements in reporting outputs depend on upstream improvements in operational documentation, cost tracking, and internal review routines.

4.2 Category imbalance and construction-specific implications

The dominance of balance sheet disclosure may reflect the relative ease of presenting static account balances (e.g., assets and liabilities) compared to explaining dynamic cash flow patterns. Weak cash flow disclosure is particularly significant for construction SMEs because the sector depends on payment timing, retention, and claims cycles. When cash flow disclosures are missing or weak, external stakeholders have limited capacity to evaluate liquidity risk and short-term solvency, and internal managers have weaker visibility over financing needs.

4.3 Organizational readiness pathway

Figure 2 presents a simplified conceptual structure linking process standardization to disclosure qual-ity. The diagram reflects a logical chain: standardized processes improve information visibility, which supports internal control maturity, enabling higher-quality disclosure outputs.

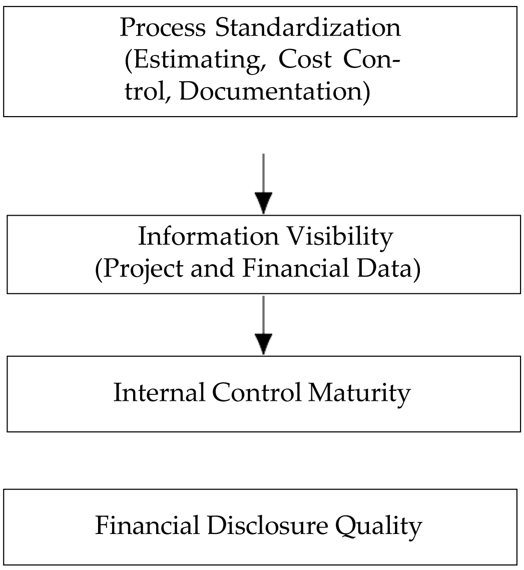

Figure 2: Financial disclosure as an outcome of organizational readiness (conceptual structure).

4.4 Study limitations and directions for further research

This study is limited by its reliance on archival financial statements from a single reporting year and by the use of a descriptive design that does not test causal relationships. Furthermore, because dis-closure practices may vary across regions and firm types, the sample should not be interpreted as fully representative of all Libyan construction firms. Future studies may extend the disclosure index across

multiple years, incorporate firm attributes (e.g., size, governance features, or AIS maturity), and test associations between disclosure quality and performance outcomes using inferential methods (Gheriani, 2020; Muftah, 2024).

5 Conclusion

This study assessed the quality of financial disclosure among small and medium construction firms in Libya using a disclosure-index methodology. The results reveal moderate and uneven disclosure levels, with most firms exhibiting partial compliance and significant variability across reporting categories. Disclosure performance is strongest for balance sheet items and weakest for cash flow reporting.

Overall, the findings support the interpretation of disclosure quality as an outcome of organizational maturity and a technical indicator of performance readiness. Strengthening internal processes, docu-mentation practices, and accounting information systems is essential for improving reporting quality and institutional credibility within the Libyan construction sector.

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