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تأثير فعالية النظام المحاسبي على ثقة أصحاب المصلحة في المصارف الليبية

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The Influence of Accounting System Effectiveness on Stakeholders' Trust in Libyan Banks

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Abstract:
This study attempts to check whether banks' accounting systems have an effect on stakeholders' trust in Libya. To achieve this objective, the quantitative research design was adopted. 49 questionnaires had been distributed to banks' stakeholder including employees, managers, and investors to assess their perceptions on the effectiveness of accounting systems and stakeholder confidence. The accounting system effectiveness measured in this study using four of its aspects, namely, the system's accuracy, internal controls, transparency, and technological adoption. Whereas the stakeholders' trust was measured using three of its determinants, namely, transparency, reliability, and confidence in decision-making. Results indicate a significant positive impact of the level of accounting system's effectiveness on the level of stakeholders' trust. A bank possessing a transparent and well-designed accounting system is expected to boost stakeholders' trust. This finding highlights the importance of implementing robust accounting systems for banks' management to build stakeholders' confidence.

Keywords: Accounting System, Stakeholders' Trust, Reliability, Transparency, Internal control, Libya.

الملخص
تهدف هذه الدراسة إلى التحقق من مدى تأثير الأنظمة المحاسبية في المصارف على ثقة أصحاب المصلحة في ليبيا. ولتحقيق هذا الهدف، تم اعتماد المنهج الكمي في البحث. حيث تم توزيع 49 استبانة على أصحاب المصلحة في المصارف، بما في ذلك الموظفين والمديرين والمستثمرين، وذلك لقياس تصوراتهم حول فعالية النظام المحاسبي ومستوى ثقة أصحاب المصلحة. وتم قياس فعالية النظام المحاسبي في هذه الدراسة من خلال أربعة أبعاد، وهي: دقة النظام، والرقابة الداخلية، والشفافية، والتبني التكنولوجي. في حين تم قياس ثقة أصحاب المصلحة باستخدام ثلاثة محددات، وهي: الشفافية، والموثوقية، والثقة في اتخاذ القرار. وتشير النتائج إلى وجود أثر إيجابي معنوي لمستوى فعالية النظام المحاسبي على مستوى ثقة أصحاب المصلحة. إذ يُتوقع أن يسهم امتلاك المصرف لنظام محاسبي شفاف ومصمم بشكل جيد في تعزيز ثقة أصحاب المصلحة. وتبرز هذه النتيجة أهمية تطبيق أنظمة محاسبية قوية من قبل إدارات المصارف لبناء ثقة أصحاب المصلحة.

الكلمات المفتاحية: النظام المحاسبي، ثقة أصحاب المصلحة، الموثوقية، الشفافية، الرقابة الداخلية، ليبيا.

Introduction:

Background and Significance:

In Libyan banks, accounting system's effectiveness plays a key role in determining the level of stakeholders' confidence towards the banks. Employees, investors, managers, and regulators, as

stakeholders, require accurate and transparent financial information that enables them to make well-based decisions. The quality or effectiveness of accounting system can have a direct impact on the reliability of financial reporting, and eventually impacts stakeholders' trust toward the governance mechanisms and financial performance of the bank (Shareia, 2016; Barghathi, 2017).

Libya, as a third world country, has a distinct economic and institutional setting, which offers unique challenges for accounting and auditing practices. Also, the recent transition of the country's economy, from a centrally planned to one which is oriented by market, has introduced the need to significant reforms especially in accounting and financial reporting practices. In spite of many reforms, accounting systems are still facing concerns about their adequacy in improving levels of transparency and accountability (Shareia, 2020; Barghathi, 2019).

Research Problem:

Although many literatures focus on accounting systems and their relationship with organizational performance, there is a lack in empirical research that specially investigate the role of accounting systems in building stakeholders' confidence, particularly in the Libyan banking sector (Barghathi, 2017; Barghathi, 2019). This gap in literature is clear given the important role stakeholder trust plays in the welfare of financial markets and the overall economy. The stakeholder trust toward Libyan banks has been damaged by the widespread of corruption practices especial in the banks. According to recent reports of the Libyan accounting Bureau, the financial frauds are largely committed in the banking sector (Libyan Audit Bureau, 2022).

Research Objectives:

The current study aims to examine the influence of accounting system's effectiveness on stakeholders' confidence in Libyan banks. As well as, identifying the critical aspects of accounting systems that determine stakeholders' perceptions regarding their confidence in the bank.

Research Questions:

The study attempts to answer these two research questions:

- How does accounting system's effectiveness affect stakeholders' trust in Libyan banks?
- Which of the three aspects of accounting system is more crucial in forming stakeholders' perceptions regarding their trustworthiness in banks?

Literature Review:

Accounting Systems:

Accounting system consists of structured processes of recording, processing, and reporting financial activities and transactions, which provide important information required for making decision within organizations. Qatawneh and Alfalayeh (2022) highlights that efficient and effective accounting system can achieve two objectives at the same time, which are improving the quality of financial reporting process and reducing the chances of earnings management practices, thus achieving high level of organizational transparency. However, in emerging markets, like Libya, the accounting system normally is challenged by several issues such as insufficient internal controls, out-of-date technology, and shortage in professional training programs (Shareia, 2016).

Many attempts in the literature have explored accounting systems' aspects in terms of their accuracy, internal controls, reliability, and technological implementation, and their role in organizational efficiency and performance. For instance, Barghathi (2017) stated that the accounting system, that has robust internal controls and precise level of reporting, can diminish the possibility of stakeholders losing their trust in Libyan banks. Correspondingly, another study by Alassuli, Thuneibat, Eltweri, Al-Hajaya, and Alghraibeh (2025) indicated that the technological upgrade of accounting system is linked with high transparency levels and improved level of compliance with financial standards and regulations.

Stakeholders' Trust:

Stakeholders' trust refers to the confidence of stakeholders, such as employees, managers, investors, customers, regulators, etc.., in the reliability, accuracy, and transparency of the financial statements and overall governance system of an organization (Surya, 2021). This confidence is key factor in the financial markets' stability. It is also critical for organizational success, since many types of stakeholders make their decisions based on the financial information provided by accounting system. Furthermore, previous studies done in developing countries context such as Barghathi (2019) argued that the level of stakeholders' confidence in an organization is often shaped by the level of financial reporting quality. Also, the level of trust is determined by their perceptions of the accounting system effectiveness (Shareia, 2020).

The Relationship Between Accounting Systems and Stakeholders' Trust:

Prior empirical studies indicated that there is a positive relationship between accounting system effectiveness and stakeholders' confidence in an organization. For example, Barghathi (2017) showed that Libyan banks that have strong and effective accounting system displayed high level of stakeholder trust as result of the accurate and reliable financial reporting. In addition, Shareef, Younis, and Al-

Sadia(2023) suggested that characteristics of accounting system such as technological implementation and strong internal controls are related to improved transparency, and hence enhance level of stakeholder trust. Nevertheless, limited number of attempts that have been made to investigate this relationship in Libya, highlighting a research gab about which characteristics of accounting system have a significant role in shaping the stakeholders' attitude or confidence in the Libyan banks. Therefore, this study addresses this gap by focusing on the role of four features of accounting systems in shaping stakeholders' attitude toward the banks.

Study hypothesis:

H1: The level of accounting system effectiveness has a significant positive impact on Stakeholders' confidence in Libyan Banks.

Methodology:

Research Design:

The current research adopts a quantitative research design to assess the direct effect of accounting system effectiveness on stakeholders' trust in Libyan banks. it uses a cross-sectional survey questionnaire to gather the data from banks' stakeholders such investors, employees, and managers. The quantitative approach is utilized to measure the impact of the independent variable on the dependent variable (Creswell & Creswell, 2018). In this study, accounting system effectiveness is the independent variable, while the dependent variable is stakeholders' confidence. The study is using PLS-SEM to analyze the data.

Population and Sample:

The research population includes different types of stakeholders such as, investors, employees, and managers in Libyan banks operating in Tripoli- Libya. Due to constraints related the availability of respondents and given the exploratory nature of this research, 83 survey questionnaires were distributed using purposive sampling, by which stakeholders were targeted based on level of their involvement with or the extent to which they are affected by accounting system and financial reporting. This method of sampling guarantees that participants have the required knowledge to answer survey questions (Etikan, Musa, & Alkassim, 2016). Therefore, the purposive sampling is used to ensure respondents' understanding of the bank's accounting system and its direct effects on their confidence in the bank. Only 49 questionnaires have been received and analyzed.

Questionnaire design:

The questionnaire has been divided into two main sections. Each section uses measurement items to assess the variables of the study. Items were measured using a 5-point Likert scale. **The first section is designed to measure the independent variable "Accounting System Effectiveness", in which** 8 measurement Items focused on accounting system features included in the study, namely, system reliability, internal controls, accuracy, transparency, and its technological implementation. **The second part of the questionnaire is set to assess the dependent variable in the study "stakeholder's trust", in which** 7 measurement Items were designed to evaluate participants' perceptions of transparency, reliability, and confidence in bank's organizational decision-making.

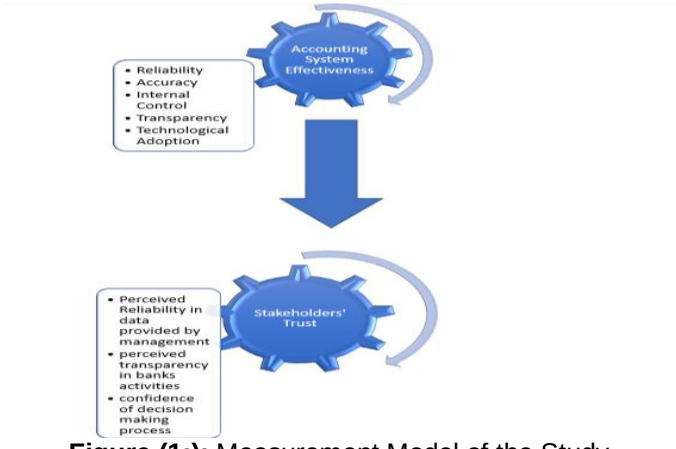

Figure (1:): Measurement Model of the Study

Data Analysis:

As stated previously, the data was collected using a questionnaire. Now at analysis stage, the Partial Least Squares Structural Equation Modeling "PLS-SEM" will be conducted using 4.0 Smart-PLS software. According to Hair, Hult, Ringle, & Sarstedt (2022), this type of analysis is suitable for any research that is conducted on small sample size and is found to be effective in testing complex

relationships that exist among latent constructs. Data analysis using PLS usually follows two main phases:

The First phase "assessment of Measurement Model" is conducted to assess the PLS model used in the study, it uses several tests to confirm the reliability and validity of constructs, these tests normally consist of Cronbach's alpha, composite reliability, and average variance extracted "AVE".

The second phase "assessment of Structural Model" is about performing several tests on the relationship being examined, these tests include testing model's path coefficients, significance levels, and the calculating the R square values. These tests are used to evaluate the relationship 's strength and significance that exist between the two variables of the study (accounting system effectiveness and stakeholders' trust).

Descriptive Statistics:

49 questionnaires were collected from different stakeholders, and then were validated and used in this study. Table 1 indicates the descriptive statistics of the two variables used in the study.

Table (1): Descriptive Statistics of Key Variables

Variable	Mean	SD	Min	Max
Accounting System Effectiveness	4.02	0.57	3	5
Stakeholders' Trust	4.08	0.53	3	5

As shown above, the results of the descriptive analysis suggest a general agreement among the 49 respondents that their banks' accounting systems are effective (Mean = 4.02) and that their confidence in the banks is high (Mean = 4.08).

Assessment of Measurement Model:

To measure the reliability and validity of model used in this study, the study uses different tests depending on the type of study constructs. For the reflective construct (accounting system effectiveness), the study uses Indicator reliability, internal consistency reliability, convergent validity and discriminant validity. For the formative constructs (stakeholder's trust), the study uses multicollinearity test and the significance and relevance of outer weights via bootstrapping.

Indicator Reliability:

As it can be seen from table 2, all outer loadings related to reflective indicators are above the threshold of 0.70, showing a satisfactory level of reliability (Hair et al., 2021). only one item from the accounting system effectiveness construct (ASE5) was removed due to its loading recording below 0.60.

Table (2): Items and Their Respective Loadings for the Study Model

Variables	Items	Outer Loadings	Removed Items	Loadings of Removed Items
SH	SH1	0.876		
	SH2	0.897		
	SH3	0.854		
SHT	SHT1	0.815		
	SHT2	0.927		
	SHT3	0.913		
	SHT4	0.941		
	SHT5	0.634		
	SHT6	0.765		
	SHT7	0.632		
ASE	ASE1	0.815	ASE5	0.593
	ASE2	0.927		
	ASE3	0.913		
	ASE4	0.941		
	ASE6	0.627		
	ASE7	0.701		
	ASE8	0.662		

Internal Consistency Reliability:

As shown in table 3, the values of Cronbach's alpha and Composite Reliability (CR) for all of the study constructs recorded above the threshold of 0.70, which means internal consistency has been confirmed.

Table (3): Cronbach's Alpha Values

Latent Construct	Cronbach's Alpha (CA)
Accounting System Effectiveness	0.757
Stakeholders' Trust	0.849

Convergent Validity:

Table 4 indicates that the values of Average Variance Extracted (AVE) recorded more than the threshold of 0.50 for both study constructs, which means the convergent validity of the model has been confirmed (Fornell & Larcker, 1981).

Table (4): Average Variance Extracted of the Constructs

Latent Construct	Average Variance Extracted (AVE)
Accounting System Effectiveness	0.659
Stakeholders' Trust	0.843

Discriminant Validity

The discriminant validity was tested by applying Fornell–Larcker measure and Heterotrait–Monotrait Ratio (HTMT). Table 5 shows that each study construct's square root of AVE recorded a value that is larger than the value of its correlations with other study constructs. Also, according to table 6, all HTMT values recorded values that are less than 0.85, proving the model's discriminant validity.

Table (5): Fornell-Larcker Discriminant Validity Analysis for The Model of the Study

	SHT	ASE
SHT	**0.812**	
ASE	0.055	**0.918**

Table (6): Heterotrait-Monotrait Ratio (HTMT) For the Study Model

	SHT	ASE
SHT		
ASE	0.110	

Assessment of the Structural Model

Measuring the collinearity of variables is necessary prior to the analysis of the interrelationships between these variables. This assessment is crucial because of the fact that if the independent variable has a problem of multi-collinearity, it will be difficult to assess the independent variable's individual impact on the dependent variable because multicollinear variables often become almost similar (Hair et al., 2010). Furthermore, the collinearity between the variables is often assessed by VIF values, where the value of VIF, that is less than 5, is seen as an indicator on collinearity not establishing a problem in the study.

The structural model in this study was evaluated by measuring collinearity, path coefficients, coefficient of determination (R square), effect size (F square), and predictive relevance (Q square). Table 7 shows that the VIF values for all of the study constructs recorded values less than 5, which means no multicollinearity issues exist (Diamantopoulos & Siguaw, 2006).

Table (7): VIF (Collinearity Measures) for the study model

Variables	VIF
Accounting System Effectiveness	2.350
Stakeholders' Trust	1.934

Coefficient of Determination (R^2):

As it is seen in Table 8, the R^2 value for stakeholders' trust was 0.41, meaning that the independent variable "accounting system effectiveness" and control variables explain 41% of the variance in the dependent variable "stakeholders' trust" among Libyan banks' stakeholders. According to Cohen, 1988, this R^2 value indicates a moderate level of explanatory power of the model.

Table (8): Coefficients of Determination (R^2)

dependent variable	R-square	size
Stakeholders' Trust	0.41	Moderate

Hypothesis Testing:

To test the hypothesized effect of accounting system effectiveness on stakeholders' trust in Libyan banks, bootstrapping with 5,000 resamples has been carried out. Table 9 shows the hypothesis testing results.

Table (9): Results of Hypotheses Testing

H	Relationship	Path Coefficient	T - value	P - values	Decision
H1	ASE->SHT	0.374	2.657	0.007	Supported

The findings reveal a significant and positive relationship between accounting system effectiveness and stakeholders' trust in Libyan banks (β = 0.374, p < 0.01).

Effect Size (f^2):

It was stated by Chin (2010) that the effect size (f^2) is an indicator that simply shows the degree of the effect that one of the independent variables has on the dependent variable. The effect size detects R^2 values variance after ignoring or excluding each of the independent variables in the model. Whereas (R^2) value refers to the total or combined effect of all independent variables on the dependent variable in the model without excluding any independent variable. Therefore, the effect size (f^2) is applied to evaluate the effect of independent variable on the dependent variable in complex models many independent or control variables. Effect size (f^2) of a construct is statistically found by the following formula:

$$f^2 = \frac{R^2\ included - R^2\ excluded}{1 - R^2\ included}$$

- R^2 Included: The R^2 product in the structural model for the endogenous variable when the exogenous variable is included in the calculation of the R^2.
- R^2 Excluded; means is the R^2 product for the endogenous variable in the structural model when the exogenous variable is not included in the R^2's calculation.

Table 10 indicates that the effect size of accounting system effectiveness on stakeholders' trust recorded 0.21, which suggests a statistical small effect according to Cohen's (1988) guidelines.

Table (10): Effect Size of the Exogenous Variable (ASE) on Endogenous Variable (SHT)

Exogenous Latent Construct	f-square	Effect sizes
Accounting system effectiveness	0.210	Medium

Predictive Relevance (Q^2)

Table 11 illustrates that the value of Q^2 for stakeholders' trust recorded 0.42, which means the model has a substantial predictive relevance.

Table (11): Stone–Geisser Q^2 value for Endogenous Variable (SHT)

	Q^2predict	RMSE	MAE
SHT	0.421147842	0.61780235	0.43718427

Discussion and findings:

The findings of the study support the hypothesized significant influence of **accounting system effectiveness on stakeholders' trust** in the bank. Table 9 indicated a significant and positive relationship between accounting system effectiveness and stakeholders' trust in Libyan banks (β = 0.37, p < 0.01). This finding is in line with previous studies suggesting that transparent and accurate accounting system with strong internal control mitigate uncertainty and hence enhance stakeholder trust in organizations (Shareia, 2016; Barghathi, 2017).

The current research emphasizes that internal controls and technological implementation can be the critical gears of bank's accounting system. These two components make most meaningful contributions to trust. Study participants showed that accounting system that provides precise, timely, transparent, and credible financial reporting nourish stakeholders' confidence in management of the bank about its capability and standards of its decision-making process.

Additionally, taking into consideration that Libya has an evolving institutional and economic environment, the results of this study are relevant. The main implication of the findings that Libyan banks that invest in the development of accounting systems to enhance transparency, accuracy, and to strengthen internal controls, they are more likely capable of mitigating risks associated with financial restatement and misreporting, and hence, they are more capable of building stronger connections and relationships with stakeholders, and consequently maintain and fostering the organizational trust in their managements (Shareia, 2020; Barghathi, 2019).

Implications:

Theoretical Implications:

This piece of research contributes empirically to the limited accounting literature related to area of accounting systems and stakeholder trust. It offers evidence on accounting system effectiveness being an influential factor of stakeholder trust in Libyan context, and hence it extends findings by prior research on accounting systems in emerging markets.

Practical Implications:

Managers and policymakers need to give priority to improving accounting system through enhancing accuracy, transparency, internal controls, and technological implementation. By achieving such an improvement in the accounting system, organizations can boost stakeholder trust that is crucial for investment, employee engagement, and overall organization's success.

Conclusion and Recommendations:

Conclusion:

This study has investigated the impact of accounting systems on stakeholders' trust in Libyan banks through analyzing quantitative data collected from 49 stakeholders including banks' employees, managers, customers and investors. Results show a significant positive impact of accounting system effectiveness on banks' stakeholders' trust. More specific, Libyan banks having transparent, accurate, reliable accounting system, that's equipped with advanced technology, builds higher trust levels among banks' stakeholders. This finding affirm that the effectiveness of accounting systems is not only beneficial for bank's financial management department but also is vital determinant in building external trust and credibility. This research contributes to the literature by indicating that the quality of accounting information systems, including accuracy, transparency, and internal controls, is crucial element in obtaining and maintaining stakeholders' trust.

Recommendations:

For Practitioners:

- Banks should ensure the accounting records being accurate, up-to-date, and reliable.
- Designing robust internal control mechanisms to mitigate fraud, errors, and misreporting, which in turn boosts stakeholder's trust in the bank.
- Implementing and investing in advanced accounting software can improve accounting system in terms of its efficiency, transparency, and credibility.

For Policymakers:

Government regulatory bodies should establish governance framework or guideline to ensure the possession of standard accounting systems and the execution of reliable accounting practices by banks.

For Future Research:

Expand the study sample to include other sectors than banks to generalize the results across Libya. Include other variables that may potentially moderate or intermediate the impact of accounting systems on stakeholders' trust in Libyan banks. Organizational culture, corporate governance, and type of industry may have an influence on the relationship between accounting system and organizational trust.

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