The transparency of accounting information and its role in making investment decision (Companies listed on the Saudi stock exchange)

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A B S T R A C T

The present study aimed to explore the impact of accounting information transparency on the process of making investment decisions in Saudi companies. It also aimed to explore the role of accounting information transparency in meeting the investors’ needs. It should be noted that the absence of transparency shall negatively affect the growth and development of financial markets. Such absence shall discourage potential investors from investing in the market, whether these investors are inside or outside the country. The present study is considered significant because it sheds light on a significant issue. The latter issue is represented in the impact of accounting information transparency on the process of making an investment decision in the Saudi Public Shareholding Companies. The researchers of the present study adopted a descriptive analytical approach. In addition, an inductive approach was adopted too. The latter approach was adopted when reviewing the relevant studies and references. The researchers selected a sample. It consists of all the Saudi Public Shareholding Companies that were listed on the Saudi Stock Exchange during 2017. Thus, the sample consists of 172 companies. Questionnaire forms were distributed to several financial managers and managers of internal review department. These managers were selected from the aforementioned companies. 152 questionnaire forms were retrieved. All of the retrieved forms are considered valid for statistical analysis. The response rate is 86.3 % which is a high percentage. It was found that having transparent accounting information shall significantly help managers in making investment decisions. It was also found that transparent accounting information shall reduce the investment-related risks. In light of these results, the researchers suggested several recommendations.

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1. Introduction

In order for investors in financial markets to make wise investment decisions, they must be provided with reliable information. After witnessing the stock market crash on 2008, such investors have become highly concerned in conducting transactions with the companies that provide reliable information. They have become concerned in conducting transactions with the companies that disclose adequate accounting information through their financial statements and reports. Conducting transactions with such companies shall enable stockholders to make wise decisions on the right time.

It should be noted that providing the aforementioned investors with reliable financial information is highly important. That is because with such information is needed for making good investment decisions. There is a positive relationship between the transparency level and investment flow rate. In other words, transparency plays a significant role in attracting investors.

One must distinguish between financial and governance transparency, and disclosure. Dhaliwal et al. (2012) defined transparency as the extent to which investors have access to the sought financial information that concern the company, they want to invest their funds in. The latter term can be also defined as the flow of information from companies to investors. It should be noted that transparency is not a substitute for disclosure. In fact, transparency is a mean for disclosing information in a perfect manner (Agbo and Udeh, 2019).
Investors in financial markets must be provided with adequate information about the company they want to invest their money in. Such information must be highly reliable. That is because the latter information can significantly enable the aforementioned investors to predict the market value of the stocks. If the provided information is accurate, and adequate (i.e., the transparency and disclosure levels are accepted), the investors shall be capable to predict the price of the stocks in the financial market (Zhu et al., 2015).

2. The significance of transparency

The significance of transparency and disclosure shall increase, if the reliability of companies in displaying financial information increases. The latter significance shall increase when the company identifies the accounting methods used for preparing the financial statements. It shall increase when the company identifies the policies adopted for such preparation. It should be noted that companies must disclose reliable financial data and statements. That shall enable investors to interpret these statements and taking the right decision on the right time. These statements must be easily accessed by all people. They must be clear, reliable and easily understood.

In order for the aforementioned investors to benefit from the accounting information, such information must be characterized with certain features. Such features include: relevancy, comparability, reliability and understandability. The expression (financial transparency) refers to the process of revealing the company’s actual financial position in full.

3. The elements of transparency

Based on the international accounting standards, companies must comply with the following standards to have a high level of transparency (Saade and Gomes, 2019):

1. Companies must set strategies and regulations that are consists with written and published legal rules
2. Companies must set clear rules that govern the process of publishing and disclosing information. Such rules must clarify the nature of the information that must be included.
3. Companies must disclose adequate information that enables people to understand the nature of their works. Such disclosure must be conducted in a manner that facilitates the process of controlling their performance
4. Companies must disclose the information needed by individuals and private companies for setting future plans and assess the risk level
5. The procedures, regulations, instructions and rules must be easily accessed by everyone
6. Companies must disclose the information that concerns their financial position. That should be done in a regular, accurate and quick manner.

7. Companies must disclose information that concerns their economic performance in a quick manner and on the suitable time
8. Companies must provide and conduct studies and references about the things that can affect people’s lives directly

Accounting disclosure is conducted for providing the ones who benefit from the financial statements with financial and non-financial information that is highly accurate. That is done in order to assist these people in making important investment decisions.

Investors perceive financial statements as the most reliable source for obtaining information. That is because financial statements are prepared based on international accounting standards and widely accepted accounting principles.

Accounting standards specify the minimum level of disclosure. However, they do not specify the maximum level of disclosure (Geiger and Rama, 2006).

It is widely accepted that the ones who benefit from financial statements are wise and cautious people. Therefore, in order to assist these people in making investment decisions, companies are obliged to disclose adequate financial information that are descriptive and qualitative under accounting standards.

The accounting disclosure and transparency are considered crucial for investors. That is because Investors rely on the disclosed information for making their decisions, including investment decisions. They rely on such information because they consider it as reliable information. It should be noted that the absence of transparency shall negatively affect the growth and development of financial markets. It shall also discourage potential investors from investing in the market.

Today, most financial markets oblige the companies listed on them to disclose adequate financial information in accordance with international accounting standards, international review standards and report preparation standards.

In Saudi Arabia, the Saudi Stock Exchange adopted the international review standards and the international accounting standards on 1/1/2017. Since that date, all the companies listed on the latter market must comply with these standards (SOCPA, 2017). Since that date, the latter companies have become obliged to show a high transparency level in disclosing their financial and non-financial reports that may indicate their financial position currently or in the future. Such disclosure must be done in accordance with the market’s system and regulations. It must be also done in accordance with articles 48 and 40 of the disclosure section of the seventh (7th) chapter (Tadawul, 2018).

Disclosing accounting information shall provide investors with information about how efficient the company’s management is. It shall enlighten them about the management’s ability to protect their money and run the company’s capital.
4. The study's objectives

The researchers of the present study aimed to:

1. Identify the meaning of transparency in financial statements.
2. Identify the meaning of disclosure and its types in industrial companies.
3. Identify the impact of transparency on investment decisions.
4. Identify the impact of disclosure on investment decisions.
5. Explore the relationship between disclosure and transparency when making investment decisions.

5. The study's significance

The present study is considered significant because it sheds a light on a significant issue. The latter issue is represented in the impact of accounting transparency on the process of making investment decision in Saudi Public Shareholding Companies. A high level of transparency can be achieved through disclosing adequate accounting information. It should be noted that disclosing adequate accounting information shall enable investors to identify the financial position of the company. In addition, the present study is considered significant because it aimed to explore another significant issue. This issue is represented in the impact of accounting information on the process of making investment decision in Saudi Public Shareholding Companies that are listed on the Saudi Stock Exchange.

6. Previous studies

Fernandez-Feijoo et al. (2014) aimed to identify the impact of transparency and disclosure on the reliability and relevancy of accounting information in the public joint stock service companies in Jordan. They also aimed to identify the challenges and barriers hindering the latter companies from reaching a high transparency level. They aimed to explore the significance of transparency. They found that the transparency level of the latter companies is high. It was found that transparency and disclosure have a positive impact on the reliability and relevancy of accounting information in the public joint stock service companies in Jordan. It was also found that there are many challenges and barriers hindering the latter companies from having a high transparency and disclosure levels.

Hajilee and Chen (2019) identified the way of displaying information in the financial statements when there is a feeling of uncertainty about the notes and complementary elaborations. They aimed to identify the impact of narrative disclosure on goodwill. They targeted companies located in the United States and Poland. They used the content analysis method. It was found that Polish companies must carry out narrative disclosure in order to disclose risk-related information. It was found that the sampled companies must carry out narrative disclosure to identify the extent of decrease in value.

Aguinis and Solarino (2019) explored the role of accounting information systems in making wise managerial decisions in the public organizations located in Maysan, Iraq. He developed a hypothesis that suggests that there is a relationship between these systems and the process of making managerial decisions in the public organizations located in Maysan, Iraq. He developed a model that represents the relationships between the study’s variables. He found that accounting information systems have a significant impact on the process of making managerial decisions in the public organizations located in Maysan, Iraq. He recommends providing knowledge among the members of the top management team about the significance of the latter systems and their role in the process of making managerial decisions.

Alam et al. (2011) aimed to explore the impact of disclosure and transparency on the efficiency and performance of financial markets. They found that disclosure and transparency have a significant impact on the efficiency of financial markets. They also found that disclosure and transparency have a significant impact on the performance of financial markets.

Michener (2019) aimed at identifying the level of transparency of the companies listed on Kuwait exchange stock. The sample consists from 60 Companies. They were selected purposefully.

The study relied upon items content of Standard and Poors methodology for assessing the level of transparency. The study concluded that the level of disclosure and transparency of the financial statements of the companies included Kuwait stock was high.

7. Data collection methods

The researchers of the present study adopted an analytical descriptive approach. They collected two types of data; primary and secondary data. Primary data was collected through using a questionnaire. The study's questionnaire was designed by the researchers for meeting the study's goals. As for the secondary data, it was collected through using books, studies, journals, periodicals and articles.

7.1. The study's population and sample

The sample consists from all the Saudi Public shareholder's companies that were listed on the Saudi Stock Exchange during 2017. Thus, the sample consists from 172 companies (STATS, 2018). Questionnaire forms were distributed to several financial managers and managers of internal auditing department. These managers were selected from the latter companies. 152 questionnaire forms
were retrieved. All of them are considered valid for statistical analysis. The response rate is 86.3% which is a high percentage.

7.2. The study’s instrument

A questionnaire was used by the researchers for collecting the relevant primary data. It was designed based on the previous studies and the theoretical framework. It consists from two parts. Through the first part, the researchers aimed to collect data about the demographic characteristics of the sample. As for the second part, it consists from three sections. These sections are presented below:

**Section 1**: It includes eight statements that concern the first hypothesis

H.1: There is a statistically significant relationship between transparency and the process of making investment decisions in the Saudi Public Shareholder's companies

**Section 2**: It includes eight statements that concern the second hypothesis

H.2: Transparency of industrial companies in displaying accounting information through the financial statements enable investors to meet their needs

**Section 3**: It includes eight statements that concern the third hypothesis

H.3: There is a statistically significant relationship between transparency and disclosure when making investment decisions

7.3. Statistical analysis methods

In order to analyze the collected data, the researchers used descriptive analytical methods. They also used the SPSS program and calculated means and standard deviations. They conducted the paired sample t-test. They adopted a statistical significance level of 0.05.

8. Results

The current section presented the analysis of the demographic variables and the hypothesis testing:

8.1. Demographic variables

Table 1 shows that 39.5% of the sample is less than 35 years old, also it is found that most of the sample were individuals who are specialized in accounting with the percentage of 59.2% and frequency of 90.

The aforementioned data indicates that the result of the present study can be generalized. That shall increase the reliability of the study’s results.

8.2. Variable analysis

Mean and standard deviation are used to describe attitudes toward questions of Table 2.

Table 2 describes attitudes toward the study variables and their questions; it is found that there are positive attitudes toward the above questions because their means are above the critical value (3). The grand mean also reflects that there are positive attitudes toward all the variables.

8.3. Reliability test

A Cronbach Alpha test was used to ascertain the tool consistency. The value was = 0.949 for the questionnaire. All values are accepted since they are more than 60%

8.4. Hypotheses testing

H1: There is a statistically significant impact of transparency and disclosure on the investment decision making process (Tables 3-5).

Multiple Regression is used to test above hypothesis; it is found that a calculated value of (F= 121.569) is significant at (0.05) level. This means there is a statistically significant impact of transparency and disclosure in the investment decision making process with high level Pearson correlation 0.787. Also, it is found that t – values for transparency and disclosure are significant at 0.05 level. That means transparency has a significant impact on the investment decision making process, as well as disclosure has a significant impact on the investment decision making process.

H2: There is a statistically significant impact of transparency on the decisions of investment in the Saudi Public Shareholding Companies (Tables 6-8).

Simple Regression is used to test above hypothesis; it is found that a calculated value of (t value= 10.224) is significant at (0.05) level. This means t there is a statistically significant impact of transparency on the decisions of investment in the Saudi Public Shareholding Companies with moderate level of Pearson correlation 0.641.
H3: There is a statistically significant impact of disclosure on the decisions of investment in the Saudi Public Shareholding Companies (Tables 9-11).

Table 2: Descriptive statistics of questionnaire paragraphs

| Transparency                                                                 | N  | Minimum | Maximum | Mean  | Std.dev. | Level |
|--------------------------------------------------------------------------------|----|---------|---------|-------|----------|-------|
| The decisions of investment in the Saudi stock exchange are affected by the    | 152| 1.00    | 5.00    | 3.8882| .95978   | 4     |
| extent of applying the transparency concepts and the decisions of investment    | 152| 1.00    | 5.00    | 3.7632| 1.05314  | 5     |
| in the Saudi stock exchange                                                    | 152| 1.00    | 5.00    | 4.1184| 1.00945  | 1     |
| The absence of transparency shall negatively affect the decisions of investment| 152| 1.00    | 5.00    | 3.7105| 1.28996  | 6     |
| in the Saudi stock exchange                                                    | 152| 1.00    | 5.00    | 4.0329| .98611   | 2     |
| Applying transparency concepts within facilities shall positively affect the    | 152| 1.00    | 5.00    | 3.5921| 1.31399  | 7     |
| process of making decisions of investment                                       | 152| 1.00    | 5.00    | 3.5395| 1.32668  | 8     |
| There is a relationship between the process of making investment decisions     | 152| 1.00    | 5.00    | 3.8331| .84888   |       |
| and the application of transparency and disclosure concepts in financial        |     |         |         |       |          |       |
| statements                                                                      |     |         |         |       |          |       |
| There is a relationship between making wise investment decisions and the        | 152| 1.00    | 5.00    | 4.0197| .99316   | 3     |
| availability of clear and transparent accounting information                   | 152| 1.00    | 5.00    | 3.7679| 1.0087   | 5     |
| The absence of clarity and transparency in the information listed in financial  | 152| 1.00    | 5.00    | 3.7921| 1.0945   | 2     |
| statements shall lead to making wrong decisions.                                | 152| 1.00    | 5.00    | 3.7632| .98135   |       |
| The availability of transparent accounting information shall promote feelings  | 152| 1.00    | 5.00    | 3.7434| .88398   |       |
| of trust among the investment decision makers.                                  |     |         |         |       |          |       |
| Total                                                                          | 152| 1.00    | 5.00    | 3.8331| .84888   |       |

| Disclosure                                                                      | N  | Minimum | Maximum | Mean  | Std.dev. | Level |
|--------------------------------------------------------------------------------|----|---------|---------|-------|----------|-------|
| The investment decision makers are in need for disclosing all the information   | 152| 1.00    | 5.00    | 3.9671| 1.06986  | 1     |
| that enables them to make wise investment decisions                             | 152| 1.00    | 5.00    | 3.2039| 1.24666  | 8     |
| The information listed in the disclosed financial statements do not meet the    | 152| 1.00    | 5.00    | 3.7697| 1.01296  | 6     |
| needs of the users of those statements                                          | 152| 1.00    | 5.00    | 3.7289| 1.09045  | 2     |
| Refusing to disclose the actual information that concern business outcomes and  | 152| 1.00    | 5.00    | 3.7632| .98135   |       |
| financial position to financial statements’ users is attributed to the          |     |         |         |       |          |       |
| absence of transparency and fair presentation of information                   |     |         |         |       |          |       |
| The management’s contribution to the disclosure of accounting information       | 152| 1.00    | 5.00    | 3.8026| 1.00357  | 4     |
| transparently shall raise the reliability of the published financial statements|     |         |         |       |          |       |
| from the users’ perspective                                                    |     |         |         |       |          |       |
| Refusing to disclose the actual information transparently through financial    | 152| 1.00    | 5.00    | 3.8224| 1.09243  | 3     |
| statements shall hinder the process of making investment decisions              | 152| 1.00    | 5.00    | 3.7697| 1.01296  | 6     |
| There is a relationship between the reliability of the number listed in         | 152| 1.00    | 5.00    | 3.7289| 1.09045  | 2     |
| financial statements from users’ perspective and the disclosure and fair        |     |         |         |       |          |       |
| presentation of accounting information                                          |     |         |         |       |          |       |
| Disclosing the relevant accounting information participates in rationalizing    | 152| 1.00    | 5.00    | 3.7632| .98135   |       |
| the investment decisions                                                        |     |         |         |       |          |       |
| The disclosed accounting information of financial statements doesn’t help        | 152| 1.00    | 5.00    | 3.7434| .88398   |       |
| decision makers in making investment decisions                                  |     |         |         |       |          |       |
| Total                                                                          | 152| 1.00    | 5.00    | 3.8331| .84888   |       |

Table 3: Model summary for hypotheses 1

| Model | R     | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------|----------|-------------------|---------------------------|
| 1     | .787  | .620     | .615              | 51433                     |

Table 4: ANOVA for hypotheses 1

| Model | Sum of Squares | df  | Mean Square | F     | Sig.  |
|-------|----------------|-----|-------------|-------|-------|
| 1     | Regression     | 64.320 | 2     | 32.160 | 121.569 | .000 |
|       | Residual       | 39.416 | 149 | .265  |         |       |
| Total |                | 103.736 | 151 |       |         |       |

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**Table 5: Coefficients for hypotheses 1**

| Model     | Unstandardized Coefficients | Standardized Coefficients | t     | Sig.  |
|-----------|----------------------------|---------------------------|-------|-------|
| (Constant)| .733                       | .204                      | 3.598 | .000  |
| transparency | .190                      | .069                      | 2.765 | .006  |
| disclosure | .599                       | .066                      | 9.060 | .000  |

**Table 6: Model summary for hypotheses 2**

| Model | R        | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|----------|----------|-------------------|---------------------------|
| 1     | .641     | .411     | .407              | .63839                    |

Simple Regression is used to test above hypothesis; it is found that a calculated value of (t value= 15.017) is significant at (0.05) level. This means there is a statistically significant impact of disclosure on the decisions of investment in the Saudi Public Shareholding Companies with high level of Pearson correlation 0.775.

**Table 7: ANOVA for hypotheses 2**

| Model     | Sum of Squares | df | Mean Square | F     | Sig.  |
|-----------|----------------|----|-------------|-------|-------|
| Regression| 42.604         | 1  | 42.604      | 104.539 | .000  |
| Residual  | 61.132         | 150| .408        |       |       |
| Total     | 103.736        | 151|             |       |       |

**Table 8: Coefficients for hypotheses 2**

| Model     | Unstandardized Coefficients | Standardized Coefficients | t     | Sig.  |
|-----------|----------------------------|---------------------------|-------|-------|
| (Constant)| 1.306                      | .240                      | 5.438 | .000  |
| transparency | .626                      | .061                      | 10.224 | .000  |

9. Recommendations

The researchers of the present study recommend:

1. Promoting knowledge about the obligatory disclosure among the managers of the companies listed on the financial markets. They researchers also recommend providing much attention to such disclosure and conducting it based on the international accounting standards.

2. Promoting knowledge among the managers of the companies listed on financial markets about the role of transparency in raising investors' trust in companies and increasing investment opportunities in the market.

3. Encouraging companies to raise its disclosure levels. That should involve the various types of disclosure.

4. Obliging companies to comply with the regulations of financial markets. That shall raise the quality of the investment decisions and investors’ trust in the market.

Holding more training courses by the Capital Market Authority, KSA. Such courses must shed a light on the methods used for disclosing information through non-financial and financial statements based on the international accounting standards. These courses must shed a light on the methods used for achieving a high level of transparency.

**Table 9: Model Summary for hypotheses 3**

| Model | R        | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|----------|----------|-------------------|---------------------------|
| 1     | .775     | .601     | .598              | .52560                    |

**Table 10: ANOVA for hypotheses 3**

| Model     | Sum of Squares | df | Mean Square | F     | Sig.  |
|-----------|----------------|----|-------------|-------|-------|
| Regression| 62.297         | 1  | 62.297      | 225.504 | .000  |
| Residual  | 41.439         | 150| .276        |       |       |
| Total     | 103.736        | 151|             |       |       |

**Table 11: Coefficients for hypotheses 3**

| Model     | Unstandardized Coefficients | Standardized Coefficients | t     | Sig.  |
|-----------|----------------------------|---------------------------|-------|-------|
| (Constant)| .985                       | .186                      | 5.292 | .000  |
| disclosure | .727                       | .048                      | 15.017 | .000  |

**Compliance with ethical standards**

**Conflict of interest**

The authors declare that they have no conflict of interest.

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