Qualitative Characteristics of Financial Reporting and Non-Financial Business Performance

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ABSTRACT

The purpose of this article is to examine empirically, validate, and predict the reliability of the proposed relationship between the qualitative characteristics of financial reporting and non-financial business performance via the moderating role of the organizational demographic characteristics (type, size and experience). The article is based on primary data collected through a structured questionnaire from 239 out 328 of shareholdings companies in Jordan, and the single key respondents approach was employed. The quality of financial reporting was conceptualized by the IASB’s framework fundamental qualitative characteristics (2008). The data were analyzed using structural equation modelling. The results showed that the magnitude and significance of the loading estimate indicate that the qualitative characteristics of financial reporting (i.e., relevance, understandability, faithful representation, comparability and timeliness) are significantly influence the non-financial business performance and the variation of relationship could be due to the demographic characteristics of the organizations (type, size, and experience). The article has important implications for accounting managers, auditors and financial practitioners and top managers in the surveyed companies and in similar organizations. The authors believe that the decision-makers of business organizations could benefit from this study’s findings with a better understanding of the importance of the qualitative characteristics of financial reporting as well as their relationship with non-financial business performance.

KEYWORDS

non-financial business performance, organizational demographic characteristics, Quality of financial reporting, shareholdings companies

1. INTRODUCTION

Financial reports are formal records of a business’ financial activities. They provide an overview of a business’ profitability and financial condition in both short and long term. The primary objective of financial reporting is to provide high-quality financial reporting information concerning economic entities, primarily financial in nature, useful for economic decision-making (Seyad, 2014). Providing high quality financial reporting information is important because it will positively influence capital providers and other stakeholders in making investment, credit, and similar resource allocation decisions enhancing overall market efficiency (IASB, 2008). For corporate information to beneficial, IASB argues that a key prerequisite quality in financial reporting is the adherence to the objective and the qualitative characteristics of financial reporting information. Qualitative characteristics are the

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attributes that make financial information useful and consist of relevance, faithful representation, comparability, verifiability, timeliness and understandability. The main indicators of financial information quality from the perspective of the developers of accounting standards are relevance and reliability, which make information useful for decision makers (Nwaobia et al., 2016).

Many financial and accounting researchers have confirmed on the benefits and role of the quality of financial reporting (Jaballah et al., 2014, Chan-Jane et al., 2015), they also indicated that inadequate quality of financial reporting might negatively influence the business performance and economic decisions. This means that the financial reporting quality might determine managers’ willingness for engaging in invaluable activities. For example, the financial reporting quality may facilitate better contracts to avoid investment efficiency. Furthermore, it can increase investors’ ability to control the investment decisions. Therefore, it is expected that high-quality financial reporting reduces excessive and wasting investments (Biddle et al., 2009).

In fact, the link between financial reporting quality and financial business performance has been critically analyzed and researched. Prior studies in these issues provide evidence that the quality of financial reporting is positively associated with the financial performance measures such as ROI, growth rate, volume of investment, earning per share (Bolo, 2007; Kariuki and Jagugo, 2013). However, the contemporary literatures show conflicting findings (Daw and Susan, 2015). Furthermore, the choosing performance measures are still a major argumentative issue. Performance measurement systems play an important role in developing strategy, evaluating the achievement of organizational objectives and competitive advantages. Yet many stakeholders feel traditional financially oriented measures are no longer work adequately. A recent survey of U.S. financial services companies found most were not happy with their measurement systems (Hope et al., 2013, Ghosh and Wu, 2012). They believed there was too much emphasis on financial measures such as earnings and accounting returns and little emphasis on drivers of value such as customer and employee satisfaction, innovation and quality. Inadequacies in financial performance measures have led to innovations ranging from non-financial indicators of “intangible assets” and “intellectual capital” to “balanced scorecards” of integrated financial and non-financial measures (Abdallah and Alnamri, 2015). Furthermore, several authors (Ghosh and Wu, 2012) indicated that although financial measures are important, they are not sufficient for a good performance evaluation system. The system should further include non-financial measures of performance. Kamilah A and Zabri, (2016) justifies this by indicating that firm value is developed through various activities that promote critical success factors. These factors include innovation, quality, productivity, and customer satisfaction.

Unlike the traditional financial performance measure, the question is still open whether the quality of financial reporting leads to systematic improvements in non-financial business performance measures or not. This study, therefore, has come to test empirically the proposed relationship between the qualitative characteristics of financial reporting and non-financial business performance via a moderating role of the organizational demographic characteristics (type, size and experience) in a systematic approach. In addition, this study aims to overcome the above limitations of the previous studies and to improve the understandings of the importance of the quality of financial reporting in new environmental context since the majority of previous studies were conducted in western countries. This study will be conducted among Jordanian shareholding companies, since many researchers indicate that within organizations, attention must be given to the accounting standards and laws of each country because they affect accounting management (Romney and Steinbart, 2017).

2. LITERATURE REVIEW

2.1. Quality of Financial Reporting

Kieso et al. (2016) define financial reporting as the process of presenting business financial statements in the form of a financial report for both internal and external parties related to the company. The
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