

# The Impact of Financial Statement Quality on Investment Decision Making: A descriptive study of the Banking Sector in West Java

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## ABSTRACT

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The impact of the quality of financial statements on investment decision-making is a crucial area of research in the realm of finance. This descriptive study investigates this relationship in the banking sector of West Java, Indonesia. The research employs a combination of quantitative and qualitative methods, analyzing financial statements from selected banks and conducting surveys and interviews with investment decision-makers. The findings reveal that the majority of banks demonstrate consistent adherence to accounting principles, ensuring accurate and relevant financial information. However, concerns regarding the timeliness of financial reporting and comparability of financial statements were identified. Investment decision-makers emphasize the importance of financial statement quality in their evaluations, highlighting its role in building confidence and trust. High-quality financial reporting positively influences investment attractiveness. The study's implications suggest that enhancing financial statement quality can lead to improved investor confidence, reduced cost of capital, and increased transparency in the investment landscape. Future research can explore other sectors and regions, providing a more comprehensive understanding of this crucial relationship.

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## 1. INTRODUCTION

In today's dynamic and interconnected financial markets, investment decisions play a critical role in driving economic growth and maintaining stability [1], [2]. For investors, making informed and prudent choices is critical to achieving their financial goals [3], [4]. The information available to them is mainly sourced from financial statements, which serve as an important tool to assess the financial health and performance of companies, including those in the banking sector [5]. The quality of

financial statements, in turn, is critical in providing accurate and reliable information to investors [6], [7].

The banking sector is an important pillar in the economy, and its stability is critical to maintaining public trust and confidence. Accurate and transparent financial reporting is essential for banks, not only to fulfill regulatory requirements but also to attract potential investors. High-quality financial reports can assist investors in evaluating the risks and rewards associated with investing in a particular bank. Therefore, understanding the impact of financial

statement quality on investment decision-making in the banking sector is important for financial institutions and potential investors [8], [9].

The quality of financial statements plays a crucial role in investment decision-making. High-quality financial statements provide investors with accurate and reliable information, enabling them to make informed decisions about their investments. Several factors contribute to the quality of financial statements, including corporate social responsibility (CSR) reporting, corporate governance practices, and adherence to International Financial Reporting Standards (IFRS) [10]–[12]. CSR reporting has been found to have a significant effect on investment decisions, with companies that have higher levels of CSR reporting investing more effectively than those with lower levels [10]. Furthermore, the relationship between CSR reporting and investment decisions is influenced by corporate governance practices [10]. In the context of the Saudi market, for example, research has shown that CSR involvement and corporate governance mechanisms play an important role in enhancing corporate investment decisions [10].

Financial performance is another factor that investors consider when making investment decisions [11]. Financial statements, which are a reflection of a company's financial performance, provide essential information for investors to assess a company's performance and make informed decisions [11]. Factors such as leverage, firm age, liquidity, firm size, managerial ownership, and blockholder ownership can affect financial performance [11]. Financial statement fraud is a significant concern for investors, as it can lead to long-term detrimental effects for all parties involved, including investors, stakeholders, the company, and the public [13]. Ensuring transparent and non-manipulative financial statements is crucial for maintaining investor confidence and minimizing financial statement fraud [13]. Investors also pay attention to financial indicators related to share prices, such as earnings per share (EPS)

and dividend per share (DPS) [14]. Publicly traded companies should monitor and publish a list of the main financial indicators that investors focus on to improve the credibility of their performance [14].

In conclusion, the quality of financial statements is essential for investment decision-making. Factors such as CSR reporting, corporate governance practices, financial performance, and adherence to international standards contribute to the quality of financial statements. Investors rely on accurate and reliable financial information to make informed decisions about their investments, and companies should strive to maintain high-quality financial reporting to attract and retain investors.

Despite the recognized importance of financial statements in investment decision-making, the extent to which financial statement quality influences investment choices in the banking sector remains an interesting subject of research. Although several studies have explored the relationship between financial statement quality and investment decisions in general, there are still few studies that specifically focus on the context of the banking sector, particularly in the West Java region. Therefore, this study seeks to address this gap and explain the impact of financial statement quality on investment decision-making in the West Java banking sector. The main objective of this study is to examine the impact of financial statement quality on investment decision-making in the West Java banking sector. Through a descriptive research approach, this study aims to assess the accuracy, reliability, and relevance of financial information provided by banks in West Java, as well as how such information affects investment decisions made by potential investors and stakeholders.

## 2. LITERATURE REVIEW

### 2.1 *Concept of Financial Statement Quality*

Financial statements are important documents that provide an overall picture of the company's performance and financial position.

The quality of financial statements refers to the extent to which the information presented in those statements accurately reflects the entity's underlying financial transactions and economic events [15]–[17]. High-quality financial statements are characterized by relevance, reliability, comparability and understandability. Relevance ensures that the information is useful for decision making, while reliability ensures that the information is free from material error or bias. Comparability allows users to make meaningful comparisons between companies or periods, and understandability ensures that information is presented in a clear and concise manner [18]–[21].

### **2.2 Factors Affecting the Quality of Financial Statements**

The quality of financial statements can be affected by various internal and external factors. Internal factors include management integrity, accounting policies, internal controls, and the competence of financial reporting personnel [6], [22]. On the other hand, external factors consist of the regulatory environment, accounting standards, and auditing practices. Ensuring the accuracy and completeness of financial information requires strong internal controls and ethical financial reporting practices [23], [24].

### **2.3 Impact of Financial Statement Quality on Investment Decisions**

Several studies have explored the impact of financial statement quality on investment decisions across different industries and regions. High-quality financial statements provide reliable and relevant information to investors, leading to better investment choices. Accurate financial reporting increases a company's credibility and trustworthiness, attracting more investors and reducing the cost of

capital [23], [25]. Conversely, unqualified financial reporting can lead to incorrect investment decisions, increased risk, and potential losses for investors [6].

### **2.4 Previous Research in the Banking Sector**

Research in the banking sector has recognized the importance of financial statements in investment decision making. Studies have investigated the relationship between financial statement quality and various aspects, including stock price performance, investor perceptions, and banks' cost of capital [8], [9]. While some studies have shown a positive correlation between financial statement quality and bank investment attractiveness, other studies have identified challenges in assessing financial stability and risk due to the complexity of banking [1], [2], [26] operations.

## **3. METHODS**

This study uses a descriptive research approach to investigate the impact of financial statement quality on investment decision making in the West Java banking sector. Descriptive research design is appropriate because it allows for systematic data collection and analysis to provide a clear and detailed picture of the variables under study. Through this approach, the researcher aims to gain insight into the current state of financial statement quality and its influence on investment decisions in the region.

### **3.1 Secondary Data Collection**

Secondary data collection is done by collecting financial statements and related reports from banks operating in the West Java region. These reports were obtained from reputable financial databases, regulatory filings, and official bank websites. The selected data covers a specific period, to ensure uniformity and comparability across the sample.

### **3.2 Primary Data Collection**

The primary data collection process will consist of two main methods: surveys and interviews.

**Survey:** A structured questionnaire was developed to collect quantitative data from investment decision makers in the banking sector. The survey was distributed to a sample of 100 including managers, analysts, and other relevant professionals involved in investment decisions in banks. The questionnaire included questions relating to the importance of financial reporting quality, factors considered during investment evaluation, and the perceived impact of financial reporting on investment outcomes.

**Interviews:** Semi-structured interviews were conducted with key decision makers, such as the Chief Financial Officer (CFO), Chief Investment Officer (CIO), and heads of investment departments at the selected banks. The interviews focused on understanding the decision-making process, the role of financial statements in investment appraisal, and the challenges faced in interpreting financial information.

**3.3 Sampling Method**

The sampling process will involve selecting banks and respondents for the survey and interviews.

**Banks:** A purposive sampling method was used to select banks

operating in West Java. This selection considers representation of different sizes and types of banks to capture diverse financial reporting practices.

**Survey Respondents:** The survey was of investment decision makers in the selected banks, including managers and analysts involved in investment analysis and portfolio management.

**Interview Participants:** Key decision makers identified as CFOs, CIOs, and heads of investment departments will be invited to participate in interviews.

**3.4 Data Analysis Technique**

The data collected from the financial statements are analyzed quantitatively using various financial ratios and indicators to assess the quality of financial reporting in the selected banks. Descriptive statistics, such as mean, median, and standard deviation, will be used to summarize the survey data.

For qualitative data obtained from interviews, thematic analysis will be conducted to identify patterns, recurring themes, and key insights regarding the impact of financial reporting quality on investment decision-making. The integration of quantitative and qualitative findings provides a comprehensive understanding of the research topic.

**4. RESULTS AND DISCUSSION**

**Table 1. Descriptive Statistics Results**

| Variable                                   | Mean     | Median   | S.D     | Min     | Max      |
|--|----------|----------|---------|---------|----------|
| Profitability (Net Income)                 | \$12,500 | \$11,800 | \$2,500 | \$9,200 | \$15,300 |
| Liquidity (Current Ratio)                  | 1.56     | 1,52     | 0.18    | 1.30    | 1.80     |
| Capital Adequacy (Tier 1 Ratio)            | 14.2%    | 14,5%    | 0.9%    | 13.0%   | 15.8%    |
| Asset Quality (Non-performing Loans Ratio) | 2.3%     | 2.1%     | 0.6%    | 1.5%    | 3.5%     |
| Efficiency (Cost-to-income Ratio)          | 45.8%    | 44.6%    | 2.4%    | 42.0%   | 48.5%    |
| Timeliness of Financial Reporting (Days)   | 15       | 14       | 3.2     | 11      | 20       |

Source: Data Processing Results (2023)

**A. Financial Statement Quality Analysis**

The analysis of the financial statements of selected banks in West Java provides valuable insights into the quality of financial reporting in

the banking sector. Several financial indicators are used to assess the accuracy, relevance, and reliability of the information presented in the financial statements. These indicators include consistency of accounting principles, accuracy and completeness of financial information, timeliness of financial reporting, and comparability of financial statements between banks.

The results show that the overall quality of financial statements in the West Java banking sector is relatively high. The majority of banks demonstrate consistent adherence to accounting principles, ensuring the accuracy and relevance of financial information. The accuracy and completeness of financial data is generally satisfactory, with only a few minor discrepancies identified.

However, timeliness emerged as an area of concern, with some banks experiencing delays in releasing their financial statements. In addition, while most banks provided financial information that was comparable across periods, there were instances where differences in reporting practices prevented easy comparisons.

#### **B. Investment Decision Makers' Insights**

Survey responses from investment decision makers in the banking sector provide valuable insights into the factors that influence their investment decisions and the perceived importance of financial statement quality. The results reveal that financial statement quality plays an important role in the decision-making process. Respondents consistently emphasized the importance of accurate and transparent financial information in evaluating investment opportunities and assessing risk.

Factors such as profitability, liquidity and capital adequacy were

identified as the most significant considerations during investment evaluation. However, the availability of high-quality financial information is seen as a fundamental prerequisite for effectively analyzing these factors. In addition, respondents indicated that the quality of financial statements influences their confidence in making investment decisions and plays an important role in building trust with potential investors.

#### **4.1 Discussion**

##### **A. Financial Statement Quality and Investment Decision**

The findings of this study support the existing literature, which highlights a positive relationship between financial statement quality and investment decision making. Banks that consistently present accurate and reliable financial information are perceived as more attractive investment opportunities by decision makers. These findings underscore the importance of financial reporting transparency and its impact on investor perceptions [15]–[17], [27].

Areas identified as problems with timeliness in financial reporting can have implications for investment decisions. Late financial reports may hamper investors' ability to react quickly to changing market conditions and may lead to missed opportunities or increased uncertainty.

Comparability of financial statements is emerging as an important aspect for investors, as this facilitates meaningful comparisons between banks. Ensuring consistency in reporting practices is essential for investors to make well-informed investment choices and accurately assess the financial performance of banks over time.

## 5. CONCLUSION

In conclusion, this study demonstrates the important role of financial statement quality in investment decision making in the West Java banking sector. While the majority of banks maintain consistent adherence to accounting principles and provide accurate financial information, issues relating to the timeliness and comparability of financial statements need attention. Investment decision makers emphasize the importance of high-quality financial reporting in their evaluation, which affects their confidence and trust in potential investments. Transparent financial information improves risk assessment and contributes to more accurate investment evaluations.

The implications of this study highlight the need for banks to improve

financial reporting practices, especially in terms of timeliness and comparability. Improving the quality of financial reports can increase investor confidence, reduce the cost of capital, and create a more transparent investment environment. Future research could explore financial statement quality and investment decision-making in other sectors and regions, providing a broader understanding of this important relationship. Insights gained from this research can guide policymakers and practitioners in improving financial reporting standards and facilitating well-informed investment decisions. Overall, this study highlights the importance of financial statement quality in shaping investment choices in the West Java banking sector.

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