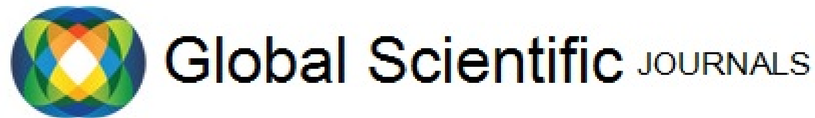

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THE IMPACT OF CORPORATE DISCLOSURE ON EARNINGS QUALITY AND FAIR FINANCIAL REPORTING IN SELECTED OMANI FIRMS.

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ABSTRACT

Corporate disclosure plays an inevitable role in enabling stakeholders to make informed decisions about a firm. Financial statements serve as the primary source of disclosure for companies. However, many firms tend to selectively disclose information that benefits them while concealing information that could impact their reputation and future prospects. This study aims to investigate the impact of corporate disclosure on earnings quality and fair financial reporting in various listed firms in the Sultanate of Oman. Data were collected from external auditors of several listed companies in Oman using a structured questionnaire. Statistical techniques such as correlation, regression, and ANOVA were employed to analyze the data. The results indicate that corporate disclosure significantly influences earnings quality and establishes a statistical relationship with fair financial reporting in the company. The findings of this study provide valuable insights for the industry and regulatory bodies, emphasizing the importance of both voluntary and non-voluntary disclosure to enhance earnings quality and foster fair reporting practices.

Key words: Corporate disclosure, Earnings quality, Fair financial reporting

INTRODUCTION

Corporate firms often tend to conceal debt, make false announcements about financial results, and manipulate financial information, leading to the bursting of bubbles or financial crises. These malpractices are considered failures of corporate governance and a lack of proper disclosure (Farvaque, 2021). Corporate disclosure refers to the presentation of all information related to the company to the public after it has been verified by auditors. The aim is to communicate the firm's performance and governance to the outside world (Haely, 2001). Moreover, this information assists investors and shareholders in making investment decisions. Additionally, firms may also disclose non-financial information for the benefit of stakeholders. Furthermore, financial information includes all information related to the financial health of the firm, such as the balance sheet, income statement, cash flow statement, statement of changes in equity, and related notes (Alwardat, 2019). Non-financial information typically includes governance, social, and environmental disclosures. Corporate disclosure must adhere to the rules and regulations applicable to the company, ensuring transparency and usefulness for stakeholders.

According to the Cambridge Dictionary, earnings quality refers to the extent to which a company's accounts accurately reflect the income for a given period, including only genuine sales and excluding income that may not be repeated in the future (Cambridge Dictionary). A company's true earnings can only be presented by eliminating any anomalies, accounting tricks, or one-time events that artificially inflate the numbers. Quality earnings also imply an increase in net income that aligns with a corresponding increase in cash flow (Investopedia). The key determinants of earnings quality include a firm's characteristics, financial reporting practices, governance and control, the attitude of auditors, and equity market incentives (Alwardat, 2019). Fair value measurement of assets is associated with lower mixed earnings quality, while lower levels of fair value measurement are linked to decreased earnings quality. Corporate governance measures contribute to enhancing the earnings quality of a firm (Thesing & Velte, 2021).

It has been widely accepted that if the firm follows applicable financial standards for the preparation of financial statements, the reporting is expected to be true and accurate. However, recent corporate accounting scandals have shown that such an interpretation does not always hold true (Harris, 2007). Companies should strive to prepare true and fair financial statements, as these statements significantly impact the decisions of investors and stockholders. This implies that the financial statements prepared by the firm must faithfully present information without any element of bias and should reflect the economic substance of transactions rather than just their legal forms (Ammar Ali, 2020). True financial reporting indicates that the financial statements are factually correct and have been prepared in accordance with applicable accounting standards (Ammar Ali,

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2020). To ensure a true and fair view of financial statements, those charged with governance or management must exercise professional judgment at all stages of accounts preparation, rather than merely following accounting standards for compliance (ACCA, 2014).

STATEMENT OF THE PROBLEM AND SIGNIFICANCE OF THE STUDY

The financial reports prepared by the firm alone are insufficient for investors and stakeholders to make decisions regarding the financial strength of the company, primarily due to the lack of available information (Al Sufi, 2011). Investors and stakeholders require additional information about the company and its prospects to gain a clear understanding of where they should invest their hard-earned money and whether the firm is a worthwhile investment. Corporate disclosure plays a vital role in providing the necessary information to address their questions and facilitate decision-making. However, some firms may focus on publishing only forward-looking information such as revenue, EPS, and cash flow targets, while neglecting to disclose critical information to shareholders. While this may not violate accounting standards, it can impact the stakeholders' ability to gain a true and fair understanding of the company (Craig, 2017).

Corporate disclosure is essential for investors and stakeholders as it provides them with valuable information about the sources of income, the company's ability to implement and expand projects, and its capacity to meet obligations. It enables them to assess the accuracy of market prices and evaluate the effectiveness of management (NG, 2009). Additionally, corporate disclosure helps reduce the likelihood of information leakage and minimizes the circulation of rumors regarding the company's financial information (Al Husseini, 2011). In this context, researchers are investigating whether proper financial disclosure by a company has an impact on its earnings quality and fair financial reporting practices.

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OBJECTIVE OF THE STUDY:

1. Examine the different types of disclosures made by selected Omani firms in their financial statements.
2. Investigate the influence of corporate disclosure on the earnings quality of firms in Oman.
3. Analyse the impact of corporate disclosure on fair financial reporting practices in Omani companies

RESEARCH HYPOTHESIS

H0: There is no significant relationship between corporate disclosure and earnings quality among selected firms in Oman.

H02: There is no significant relationship between corporate disclosure and fair financial reporting of the firm.
H03: There is no significant statistical relationship between earnings quality and fair financial reporting.

LITERATURE REVIEW

Agyei-Mensah (Agyei-Mensah, 2019) conducted a study that examined the effect of audit committee effectiveness and audit quality on voluntary corporate disclosure in 36 companies listed on the GSE. The empirical investigation utilized data from the financial statements of these 36 companies over a four-year period, from 2013 to 2016. The study revealed that the size of the audit firm and the effectiveness of the audit committee play critical roles in ensuring high-quality voluntary disclosure.

El-Sood (El- Sood, 2022) aimed to investigate the relationship between abnormal disclosure tone, earnings management, and earnings quality. The study found that companies with a lower level of abnormal disclosure tone exhibited higher earnings persistence compared to those with a higher level of abnormal disclosure tone. Furthermore, the study demonstrated a strong association between abnormal disclosure tone and earnings quality.

Blanco (Blanco, 2014) discovered a positive relationship between segment disclosure and earnings quality. The study concluded that the level of earnings quality in firms is influenced by the current segment disclosure practices. Another study by Francis (Francis, 2008) found that companies with higher levels of voluntary disclosure tend to exhibit higher earnings quality compared to companies with lower levels of voluntary disclosure. In a recent study conducted by Alipour (Alipour, 2019), a significant positive relationship was found between the quality of environmental disclosure and earnings quality..

Muttakin (Muttakin, 2012) conducted a study and found a correlation between CSR disclosure levels and earnings management, as measured by discretionary accruals. The research demonstrated that companies disclosing more CSR information tend to inflate their profitability through increased discretionary accruals. The findings suggest a positive and significant relationship between earnings quality and CSR disclosure. The study also revealed that as the percentage of shares controlled by the government increases, the association between earnings quality and CSR disclosure weakens.

According to Ji (Ji, 2017), there is a positive connection between internal control weaknesses and both earnings quality and the disclosure of internal control weaknesses. The study

indicated that a higher value of ABSDA (Accounting-Based Size of the Disclosure of Internal Control Weaknesses) is associated with a greater number of internal control weaknesses. The findings demonstrated that both accounting-related and non-accounting-related internal control weakness disclosures have a significant impact on earnings quality.

Kareem (Kareem, 2021) conducted a study that divided earnings quality measurement into three different components: value relevance, accrual quality, and earnings persistence. The results revealed a positive relationship between corporate social responsibility disclosure and earnings quality in terms of value relevance across Bahrain, Saudi Arabia, and the United Arab Emirates

While improvements in the quality of financial reporting practices are commonly attributed to audit committees, it is suggested that these improvements are more likely to result from reduced earnings manipulation rather than accruals stemming from management errors or environmental uncertainty. Al Kalbani (Al Kalbani, 2008) stated that Omani listed firms met the obligatory disclosure criteria but provided minimal amounts of voluntary disclosure. The study identified the company's size, auditor type, and industrial sector as the main determinants of transparency levels in Omani annual reports.

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Earnings quality relies on the reliability, relevance, completeness, and accuracy of financial statements. Therefore, auditors are anticipated to exercise conservatism when evaluating the information provided by preparers before providing their attestation. Stakeholders, on the other hand, require a dependable source of financial information and earnings quality to make informed decisions. Consequently, both Nwaobia, Kwarbai, and Ogundajo (2016) and Jaballah, Yousefi, and Zaria (2014) reached the conclusion that there is a positive correlation between earnings quality and investors' decision-making.

A study conducted by Al Ania (Al Aina, 2021) revealed that users rely on audit reports to assess earnings quality and identify any deficiencies in accounting conservatism during the estimation and reporting of financial results. The study noted that accounting conservatism does not have an impact on earnings quality, but there is a positive effect of auditing conservatism on earnings quality. In another study by Hamdan (Hamdan, 2020), the impact of the audit committee on earnings quality was examined. The findings indicated that the size of the audit committee and earnings quality exhibit differences, and the size of the audit committee should not reach a level where marginal returns diminish. Additionally, there is a direct relationship between

audit committee independence and earnings quality. The study also found no significant correlation between the number of audit committee meetings and earnings quality.

According to Amrah et al. (Amrah, 2020), high financial reporting quality has the benefit of reducing the cost of debt and providing valuable information to various stakeholders such as creditors, auditors, and investors. The quality of financial reporting plays a crucial role in evaluating business performance. Assuad et al. (Assud, 2021) conducted a study where they measured financial reporting quality using three commonly used proxies. The measurement of audit quality variable was based on factors such as the size of the audit company, empirical analysis, financial reporting, and auditor data from data streams. The findings of the study suggest that financial reporting quality is positively linked to investment efficiency. However, the study did not find any direct or indirect beneficial influence of audit quality on investment efficiency

RESEARCH GAP AND METHODOLOGY

There have been numerous studies conducted worldwide that highlight the significance of corporate disclosure and earnings quality, including works by Al Ania and Chong (2021), Hamdan (2020), Assad (2021), Agyei-Mensah (2019), and El-Sood (2022). Researchers have also explored the requirements and factors influencing true and fair financial reporting, as seen in studies by N.A (2003), Al-kalbani (2008), and Zaria (2014). However, investors currently face challenges in obtaining accurate information that facilitates informed decision-making. Existing research does not extensively examine the impact of corporate voluntary and non-voluntary disclosure on earnings quality and its contribution to fair financial reporting. In this study, researchers aim to understand the extent to which corporate disclosure influences earnings quality and fair financial reporting practices in companies.

DATA AND METHODOLOGY

In this study, a quantitative research model has been employed. Quantitative research involves the use of numerical data, which allows researchers to measure, understand, and express information in a quantitative manner (Sheard, 2018). Both primary and secondary data were utilized in this study. The primary data was collected through a structured questionnaire distributed to auditors working in various companies. External auditors were chosen as respondents due to their expertise in corporate disclosure, earnings quality, and financial reporting standards.

The researchers collected data from external auditors employed at different auditing firms in Oman. The questionnaire consisted of 15 closed-ended questions and 2 open-ended

questions. Responses were measured using a five-point Likert scale. The questionnaires were sent to the auditors as Google Forms, and they were requested to complete them. The collected data was then cleaned and validated using MS Excel and analyzed using statistical tools such as MS Excel and SPSS. Convenient sampling method was utilized to collect the data, as it allows for more accurate and consistent sampling while saving time (Blogger, 2013).

Before distributing the questionnaire to external auditors (respondents), a small sample of 5-10 auditors was selected to test the reliability and validity of the questionnaire. The results indicated that the questionnaire was consistent, and minor changes were made based on the group's suggestions.

FINDINGS AND DISCUSSION

In this study, a total of 62 auditors responded to the questionnaire. The findings revealed that 52% of the respondents were female, while 48% were male. The largest proportion of respondents belonged to the age group of 35-43 years, accounting for 32.3% of the total. The second highest category was the age group of 26-34 years, with 19 respondents representing 30.6%. The age group of 18-25 years had 14 respondents. On the other hand, the age groups of 44-52 years and 53 years and above had the lowest number of respondents, with 6 and 3 respondents respectively.

Among the 62 respondents, 29% reported having up to 4 years of experience, while 25.8% had 5-8 years of experience. Those with 9-13 years of experience accounted for 17.7% of the respondents, while 16.1% had 14-17 years of experience. Only 11.3% of the respondents had 18 years and above of experience.

Regarding the industry of the respondents, a significant proportion (27.4%) selected "others" as their industry. The banking sector was chosen by 16 respondents, representing 25.8%. The service sector was selected by 16% of the respondents, while 11% chose the retail sector. The insurance and manufacturing sectors had the lowest representation, each selected by 6 respondents, accounting for 9.7%.

CORRELATION ANALYSIS

The study revealed a significant correlation between corporate disclosure and earnings quality, with a correlation coefficient of 0.647. This implies that the earning quality of a firm has a substantial impact on the extent of disclosure in its financial statements. To enhance the earning quality, companies should prioritize improving their disclosure practices.

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Furthermore, the study found a significant correlation between earnings quality and fair financial reporting, with a Pearson's correlation coefficient of 0.484. This correlation suggests that there is a moderate correlation between the earning quality of a company and the fairness of its financial reporting.

Additionally, the study revealed a moderate significant correlation (correlation coefficient of 0.576) between corporate disclosure and fair financial reporting. This indicates that the disclosure practices adopted by a company in its financial statements directly impact the fairness of its financial reporting. As a result, both regulators and companies should prioritize the importance of disclosure to improve the overall framework of fair financial reporting.

Based on the regression analysis, the results indicate a significant relationship (p-value = 0.001) between corporate disclosure and earnings quality. The null hypothesis is rejected, suggesting that there is indeed a statistically significant association between corporate disclosure and earnings quality. It is imperative for companies to provide comprehensive and accurate information in their financial statements to enhance both earnings quality and investor confidence. The coefficient between corporate disclosure and earnings quality further supports the significant relationship between the two variables.

Furthermore, the study also reveals a significant regression (p-value = 0.001) between corporate disclosure and fair financial reporting. This implies that the null hypothesis is rejected, and the alternative hypothesis is accepted. Consequently, it can be inferred that corporate disclosure has a notable impact on the fair financial reporting practices of companies.

The coefficient between corporate disclosure and fair financial reporting indicates a significant relationship (p-value = 0.001) between the two variables. This underscores the importance for companies to recognize that adequate and comprehensive corporate disclosure is essential for achieving true and fair financial reporting.

Additionally, the study reveals a significant regression (p-value = 0.001) between earnings quality and fair financial reporting. This finding indicates a significant relationship between the two variables, as evidenced by the rejection of the null hypothesis and the acceptance of the alternative hypothesis. The coefficient between earnings quality and fair financial reporting further confirms the significant relationship between them. This suggests that earnings quality and fair financial reporting are interrelated and mutually influence each other. When one aspect is properly addressed, the other aspect also tends to improve. Given that corporate disclosure has an impact on both earnings quality and fair financial reporting, it further strengthens their interconnectedness.

CONCLUSION AND RECOMMENDATIONS

To conclude, this study investigated the impacts of corporate disclosure on earnings quality and fair financial reporting, providing valuable insights for companies, auditors, and investors. The findings of this study indicate a positive statistical relationship between corporate disclosure and both earnings quality and fair financial reporting. These results highlight the significant influence that corporate disclosure has on both aspects. The researchers employed various statistical tools, including regression and correlations, to analyze the data and draw meaningful conclusions.

As corporate disclosure has positive impacts on both earnings quality and fair financial reporting, it is advisable for companies to disclose their financial and non-financial information to stakeholders. Furthermore, auditors should place greater emphasis on a company's disclosures, as it aids them in assessing the potential risks of material misstatement and ensuring the presentation of true and fair financial reports. Additionally, investors are encouraged to carefully read and understand a company's disclosures before making investment decisions. By doing so, they can identify firms that do not provide accurate and reliable information in their financial statements, thereby increasing the value of their portfolios in the long run. Given the various effects of corporate disclosure on enhancing earnings quality and promoting fair and accurate financial reporting, policymakers and government agencies should also recognize the significance of voluntary and non-voluntary disclosure. This understanding will enable them to formulate appropriate policies aimed at ensuring fair financial reporting by companies.

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