DISCLOSURE IN FINANCIAL REPORTING AND INVESTMENT DECISIONS

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ABSTRACT

In light of the many financial scandals and unexpected bankruptcies that investors around the world have had to deal with, this study looked at how openness in financial reporting affects investment decisions. A quantitative correlational design was employed, and a purposeful, convenient sampling technique was utilised to recruit respondents from experts in accounting and auditing. The stratification technique was utilised to sample respondents from two strata: accountants and auditors of 20 randomly selected firms within the Southern Nigeria region, resulting in a total of 300 participants. In order to meet the objectives of the study and conform to the research hypothesis, the regression analysis was conducted with the aid of SPSS version 23. The finding from the analysis F-(stat) = 60.039 and p = 0.000b < 0.05 alpha, revealed that the transparent disclosure of corporate reports has a significant impact on investment' decisions. Based on the above, the study among other recommend that external audit should be carried out in stages by a number of different consulting companies rather than by a single accounting firm.

KEYWORD: *decision, disclosure, investment, transparent, financial, report.*

1.1. INTRODUCTION

In recent times, business and financial institutions have become increasingly prudent in their investment choices due to the multifaceted nature of the business milieu. Moreover, the malicious conduct of the company has further augmented the requirement for more open and precise disclosure of financial statements, which would facilitate investment choices for both potential and current investors.

If you only have a limited amount of money to invest, it's important to do your research and make sure your decisions are based on reliable facts. Only then will you get the best return on your money. Publicly traded companies that want to grow and do business around the world might find it easier to get the investments they need if they report their finances in detail. Businesses that don't have collateral but have good prospects and well-organized ways of reporting their finances have a better chance of getting credit because lenders have more information to use when making lending decisions. This makes it less important to have a lot of collateral. To attract investors and create a friendly business environment, it is important to follow international benchmark standards for financial reporting, especially when it comes to sharing important information. Alardi and Altass (2021) said that the main goal of financial statements is to give stakeholders high-quality information that helps them make decisions about investments, loans, and other uses of resources. This is shown by the level of financial market efficiency. Fung (2014) says that the goal of management should be to create perfect financial reports by following all of the rules of accounting standards and international laws. Alardi and Altass (2021) also found that investors want accurate and well-explained information when building an investment portfolio to make sure their investments will be successful. This is very similar to the information found in financial statements. According to Calzon and Ali, sharing important financial information between executives and investors is a key way to reduce the level of informational asymmetry, and open accounting disclosure gives investors the trust in the accuracy of financial reports that is needed for the financial market to grow.

In the past few years, there have been many financial scandals around the world. These scandals happened because businesses didn't share enough financial information. More and more companies are taking advantage of loopholes in the way regulations are written to make false financial statements available to the public. By making up numbers in financial records, shady business practices are set up to break laws and social norms. Carpenter (2021) pointed out that between 2006 and 2014, Toshiba Corporation overstated its operational earnings by more than $1.2 billion, which was not true. The unethical business practices of Enron, WorldCom, and Arthur Anderson have left their mark on the US. These companies lied about facts on purpose to get ahead of their competitors. (Segal, 2021; Bondarenko, 2022; CFI, 2022a). The incidence of accounting scandals can be attributed to the failure to report financial documents, improper protocols, and immoral conduct.

The global financial crisis has shown that multinational corporations don't give enough information about important things in their financial reports. In recent years, there has been a big change in how much investors know about how clear financial reports are. (Alardi & Altass, 2021). Alardi and Altass (2021) and Kenton (2022a) have both recognized that one of the main factors leading to subsequent financial crises is the disparity between the information that users of financial statements can access and the information that administrators have access to, due to the frailness of regulations that control the disclosure of information. It was stated that the lack of information leads to decreased market efficiency, which is among the primary factors that have contributed to the recurrent economic crises occurring on the international stage.

Because of this, there needs to be a requirement for accountability in reporting and more openness in how financial statements are shared. It is very important for businesses to share information openly so that investors can trust them when making investment decisions. People think that showing good stewardship and being open about how financial statements are made are important for gaining the trust of people who use financial reports and making good decisions. Scholars agree, then, that providing clear information and accountability in financial reporting can encourage more investment from experts and investors. (Adrian, Shabsigh, Khan, 2020; Mcclure, 2021; & Chen, 2021). The increased emphasis placed on accountability and clear disclosure in financial reporting has been amplified by the heightened expectations of investors.

In light of the above, the study aimed at establishing the impact of disclosure of financial reporting on investors' decisions. As such, the study provided answer to the research question "What is the impact of transparent disclosure in financial reporting on investment decisions?" Therefore, the following hypothesis was tested at the 0.05 level of statistical significance:
Ho1: Transparent Disclosure in corporate financial reporting has no significant impact on investment decision.

2.0 LITERATURE REVIEW
2.1. Conceptual review
2.1.1. Disclosure in Financial Reporting
Disclosure, in financial terms, means giving the public important information about a business in a timely manner. (CFI, 2022b). It is a requirement within the realm of finance and investment that businesses and corporations issue appropriate disclosures. An explication is supplementary data appended to an organization's financial records, typically offering elucidation for operations that have had a conspicuous impact on the entity's financial performance. Disseminating all pertinent data that could feasibly affect an investor's judgement. Investors can employ the use of the aforementioned information to facilitate the decision-making process, leading to the selection of stocks or bonds in accordance with their investment objectives and the composition of their investment portfolio.

The goal of financial disclosures is to create an equitable environment for investors. Investors are enabled to make judicious choices in their investments through the availability of information regarding a corporation's financials, tactics, and objectives. The act of making information known to the public can be seen in many different contexts; however, it is commonly understood to mean the disclosure of private data to the public in order to reduce the disparity in available information. Regulatory bodies at both a national and transnational level establish a minimum threshold of disclosure that firms are obligated to adhere to. Organizations furnishing information beyond the compulsory minimum can be classified as voluntary disclosers, alluding to a perceived superior quality to those outside the organization. It can be asserted that disclosure reports provide insight into a corporation's operations, fiscal footing, senior executive remuneration, operational attainment, and strategic aims. Public companies prepare disclosure reports for both internal and external stakeholders to provide insight into the company's performance and operating activities. When it comes to a business, any and all pieces of information that may bear relevance to an investor's decision, such as facts, figures, dates, procedures, and any innovations, must be taken into account. So, all information that needs to be shared includes any and all data, whether it's good or bad, lucky or unlucky, that could affect the business and, by extension, the decisions that investors make about the business's performance.

On the other hand, financial reporting is when an organization tells its stakeholders how well it is doing financially and where it stands financially over a certain time period. The individuals in question here are investors, creditors, the general public, and debt providers, as well as governments and relevant governmental agencies. For listed companies, the required frequency of financial reporting is quarterly and annually. The International Accounting Standard Board (IASB) has declared that the purpose of financial reporting is to supply data concerning the financial condition, performance, and changes in financial condition of an organization that is beneficial to a broad scope of users in making economic decisions.

It is thought that giving out information can increase the value of a company by lowering the cost of capital or by making investors expect more cash flows. Initial disclosure can bring about a decrease in the costs associated with capital, largely due to the decline in estimation risk and information risk. (Adam, 2022). The potential for misestimating the expected return from securities or investment projects may arise due to the uncertainty regarding the potential outcomes of the investment. (Barry and Brown, 1985) The potential for disunity between managers and shareholders notwithstanding, improved disclosure may facilitate investors' more precise discovery of value-generating possibilities with fewer mistakes, consequently enhancing the precision and productivity of capital and personnel deployment. (Bushman and Smith, 2003). Easley and O'Hara (2004) have identified that information risk may be present when there is a disparity in the level of knowledge between informed and uninformed investors regarding a particular firm. The increased transparency of information reduces the risk of informational asymmetry, thus making it more challenging and expensive for traders to acquire privileged information and decreasing the probability that uninformed investors are engaging in trading with those who have access to privileged information.

2.1.2. Investment decision

The allocation of financial resources is referred to as an investment decision. A judicious investment strategy entails a deliberate and systematic allocation of financial resources with the aim of garnering the maximum profit. The choice is predicated on investment goals, risk tolerances, and the character of the investor, such as whether they are a person or an organization. (Vaidya, 2022). Investors select the most appropriate assets or investment opportunities according to their risk profiles, investment objectives, and desired return expectations. Investment choices are impacted by the periodic rate of remuneration, affiliated dangers, maturation periods, tax incentives, capriciousness, and inflation indices.

From a financial accounting point of view, the main reason financial statements are made is to help people make smart decisions. A person's investment decisions depend on how good the financial information they can get their hands on is. The statements should be made clear and show the responsibility of management to the people who are getting this information. Vaidya pointed out in 2022 that investment decisions are made with the goal of making the most money by putting the right amount of money into the right opportunity. When making these decisions, risk and return, which are both important parts of financial management, are taken into account. Because these financial statements aren't clear and the people who use them aren't held accountable, investors who rely on them may face an extra risk they didn't expect. Typically, financial decisions are based on an evaluation of a person's financial circumstances. Chen (2021) provides evidence to suggest that investors assess a company's financial statements in order to decide if the acquisition of its stock is a worthwhile investment. Conversely, consumers base their selection of a bank or investment firm, in part, on the associated fees or costs. It is essential that the fees, interest rates, and penalties associated with a given credit card, loan, bank account, or mutual fund be revealed to the prospective consumer in order for them to make an informed decision about which to pursue. A key part of making good decisions is being able to use information to make quick, relevant, and appropriate choices that lead to the desired result. (Klinsukhon & Ussahawanitchakit, 2016). Accounting systems have been posited as integral organizational structures that are paramount for instituting well-informed decisions, selecting investment avenues, regulating, and overseeing a business milieu. The attainment of desired objectives or goals by organizations is dependent on a successful decision-making process, which involves selecting the most appropriate course of action from a range of options. The efficacy of a manager's ability to manage relies upon the judicious decision-making process of selecting the most efficient course of action to facilitate the attainment of the desired objective. In order to make the most suitable decision, a manager requires data corresponding to alternative solutions, for example, cost details and quality. (Klinsukhon & Ussahawanitchakit, 2016). Studies have indicated that competent decision-making is an evaluation of how successfully the decision-maker fulfils the expected goal in regards to corporate performance. (Dimitratos, Petrou, Plakoyiannaki & Johnson, 2011). The accounting information paradigm of transparency has created the notion that, through increased visibility of financial data and operations, users can be endowed with greater access to related information and processes, thus affording them greater autonomy and capacity for improved decision-making. The revelation of data as a sign of straightforwardness in the activity is a basic factor in creating trust among all partners in the money-related business's operational honesty and a device to watch the usage. (Klinsukhon & Ussahawanitchakit, 2016).

Journal DOI: 10.36713/epra1013 | SJIF Impact Factor (2023): 8.048 ISSN: 2347-4378
EPRA International Journal of Economics, Business and Management Studies (EBMS)
Volume: 10 | Issue: 5 | May 2023 -Peer-Reviewed Journal

2.2. Theoretical review

Agency Theory

This paper is founded on the principles of the agency theory of corporate governance. In 1972, Alchian and Demsetz initiated the concept of 'agency theory of corporate governance', which was further developed by Jensen and Meckling in 1976. (Yong, 2014). This concept serves as an explanatory framework to elucidate and address issues encountered in the relationship between principals and their agents. (Kopp, 2021). The dynamic between shareholders acting as principals and executives acting as agents is often seen. This theory examines the conditions under which various incentive plans and supervision systems can be employed to lessen welfare losses and relates to concerns about concealed characteristics in addition to information asymmetry. (Stefan & Nicolai, 2015). In the present day, executives of organizations procure capital from speculators who have trust in their aptitude to use the capital judiciously and productively in order to generate profits for the businesses. The accessible data from the company's financial report provides the foundation for this degree of trust and assurance. (Stefan & Nicolai, 2015).

Yong (2014) says that a business should be aware of how its actions might affect different stakeholder groups. If a company is accountable to and open with its shareholders, it may be able to attract and keep equity investment. On the other hand, the interests of other stakeholders must also be taken into account. To reduce the risk of mismanagement, people who represent a business and its stakeholders should include in their reports proof that they run the business responsibly and keep accurate financial records. (Stefan & Nicolai, 2015; Kopp, 2021).

2.3. Empirical review

Alfarizi and Juniarti (2020) looked at how fiscal accountability, transparency, supervision, and the publication of financial documents affected the district fiscal administration of the Bekasi municipal government from 2015 to 2018. The people who took part in the study were from the regional financial and asset management agency in the city of Bekasi. One hundred people, some of whom worked for the government and some of whom did not, took part in this study. Questionnaires are the primary instrument employed to acquire data. The investigation utilized multiple regression analysis approaches as the data analysis method. The research findings indicated that while there was no partial impact of the transparency variable on regional financial management, partial influence was exhibited by the financial responsibility variable.

Wanjau, Muturi, and Ngumi (2018) looked into how financial openness affected the stock market performance of East African companies. This study tried to find out how financial policy, investment policy, and liquidity disclosures affect how well a company does financially. Seventy-three firms were selected utilizing a purposive sampling strategy and a correlational research methodology. A descriptive, correlational, and regression analysis were conducted in order to analyze the secondary data. The research identified a strong and positive association between financial policy, investment strategy, liquidity, and financial performance.

Musyoka (2017) looked into how voluntary disclosure affected how well companies on the Nairobi Stock Exchange did financially. There were four types of voluntary disclosure: financial disclosure, investment disclosure, growth and development, and research and development. For the correlational study, 43 organizations that had been in business between 2006 and 2015 were chosen at random. A regression analysis was utilized for the purpose of data analysis. The research demonstrated a strong correlation between financial prosperity and investment, sales growth, research and development, and capital.

Satiya and Phapruke (2016) looked into the link between how openly accounting information is shared and how well decisions are made. They found that the information advantage and the quality of financial reports acted as a bridge between the two. The enhancements of innovative accounting information transparency is facilitated by disclosure, accuracy, and lucidity. Data was sourced from 238 Thai companies, which were subdivided into two categories: financial establishments and insurance providers. A multiple regression analysis was conducted to examine the data. The research has revealed that two of the three aspects of accounting information openness have a substantially positive influence on information advantage and a significantly positive effect on the quality of financial statements. The effectiveness of decision-making is substantially increased due to the quality of financial reporting and the information advantage. By looking at the existing literature, this study looked at how firm performance, profitability, and liquidity are affected by openness and accountability. No comprehensive study has yet been conducted to analyze the connection between disclosure and its influence on investment decisions. This research investigates the influence of open disclosure in financial reporting on investors' choices against the aforesaid backdrop.

Journal DOI: 10.36713/epra1013 | SJIF Impact Factor (2023): 8.048 ISSN: 2347-4378
EPRA International Journal of Economics, Business and Management Studies (EBMS)
Volume: 10 | Issue: 5 | May 2023 -Peer-Reviewed Journal

3.1. METHODOLOGY

A quantitative correlational research design was used as a method of inquiry for this study. The goal of this study is to find out how the way companies report their finances affects their investment decisions. In the study, a research tool called a survey was used to get first-hand information. In this study, people with knowledge of accounting, finance, and auditing were chosen using a convenient and planned sampling method. The stratification method was used to choose participants from two groups: accountants and auditors from 30 firms in southern Nigeria that were chosen at random. In order to reach 180 participants for the study, 3 accounting officers and 3 auditors were selected from each firm. In order to meet the study's goals and test the research hypothesis, a regression analysis was done with the help of SPSS Version 23 to find out how openness in corporate financial reporting affects investment decisions.

4.0. RESULTS

Research Question one: What is the impact of transparent disclosure in financial reporting on investment decisions?

Table1: Mean and standard deviation of the response of the impact of transparent disclosure in financial reporting on investment decisions.

SN	Items	Mean	STD
1	I The increased visibility into the operations and management of corporations facilitates investors to make informed decisions. The potential for manipulation or abuse of investors' capital is significantly reduced.	**3.32**	**0.514**
2	Disclosure of all pertinent information helps to avert serious financial and economic shocks and improves financial transparency.	**3.56**	**0.689**
3	The implementation of full disclosure reduces the possibility of agents with insider knowledge utilising such information for private benefit and pecuniary gain, as well as blocking the probability of window dressing and manipulation of accounts; thus, this in turn encourages improved transparency in the market.	**3.14**	**0.743**
4	Businesses providing comprehensive disclosure of pertinent data assists investors in forming judgements based on facts, consequently ameliorating mistrust and conjecture while enhancing investor assurance due to their being equipped to make investment decisions with clarity in the data available.	**3.46**	**0.733**
5	Through the implementation of full disclosure from businesses operating within the marketplace, a heightened sense of certainty is generated, subsequently decreasing overall volatility and providing a more predictable degree of stability in the market.	**3.13**	**0.850**

The results of the descriptive analysis demonstrate the mean and standard deviation of the responses to the query about the impact that transparent disclosure of financial reporting has on investment decisions. The average scores obtained from the aforementioned outcomes range from 3.13 to 3.56 on a four-point scale, which surpasses the criterion mean score of 2.5. In regards to this matter, a higher mean score indicated a high level of concordance with the statements. This result suggested that participants agreed that transparent disclosure of financial reporting had a beneficial impact on investment decisions. This mechanism facilitates the deterrence of illegitimate activities as well as ensuring an expected level of stability within the market. The standard deviation score of 0.514 to 0.850 indicates that there is minimal variability in the responses; however, it still reflects the overall opinion.

Journal DOI: 10.36713/epra1013 | SJIF Impact Factor (2023): 8.048 ISSN: 2347-4378
EPRA International Journal of Economics, Business and Management Studies (EBMS)
Volume: 10 | Issue: 5 | May 2023 -Peer-Reviewed Journal

Table 2: Regression analysis of the impact of transparent disclosure in reporting on investment decision.

MODEL SUMMARY[B]					
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**	**Durbin-Watson**
1	.409[a]	.168	.165	2.29446	**1.550**

Coefficients[a]						
		Unstandardized Coefficients		**Standardized Coefficients**		
		B	**Std. Error**	**Beta**	**T**	**SIG.**
1	(Constant)	7.855	1.100		7.141	**.000**
	Transparent_Disclosure	.510	.066	.409	7.749	**.000**

ANOVA[A]						
	Model	**Sum of Squares**	**df**	**Mean Square**	**F**	**SIG.**
1	Regression	316.080	1	316.080	60.039	**.000[B]**
	Residual	1568.837	298	5.265		
	Total	1884.917	299			

A. Dependent Variable: Investment Decision

B. Predictors: (Constant), Transparent Disclosure

The table above illustrates the model results for the investment decision dependent variable and the transparent disclosure independent variable. The R-value of 0.409a suggests a moderate correlation between investment choices and the transparent disclosure of financial statements. The adjusted R2 of 0.165 indicates that approximately 16.5% of the variation in disclosure transparency in financial reporting can be attributed to the variations in investment decisions. The remainder of the percentage can be attributed to external factors not considered in this model. Given that the Durbin-Watson statistic of 1.550 is within the accepted range of 2.00, the model is deemed suitable.

The coefficient of the regression (transparent disclosure, $\beta = .409$, $p = 0.000 < 0.05$ alpha) suggests that a change in transparent disclosure would lead to a measurable improvement in investment decisions. Also, from the above result, F-(stat) = 60.039 and $p = 0.000^b < 0.05$ alpha, we can infer that transparent disclosure of financial reporting has a significant impact on investment decisions. Therefore, the null hypothesis, which states that transparent disclosure of corporate financial reporting has no significant impact on investment decisions, is rejected.

4.2. Discussion of Finding

This research attempt to empirically investigate the implications of transparent disclosure of financial reporting on investment decisions. The F-statistic of 60.039 and a p-value of 0.000b, below the 0.05 alpha level, showed that the transparent disclosure of financial reporting had a significant effect on investment decisions. It can be inferred that the level of investment opportunities a firm is able to attract is contingent upon the degree of disclosure of its financial reports. This result is in accordance with Satiya and Phapruke (2016), who discovered that the quality of financial reporting and the informational superiority of a company significantly boost the efficacy of decision-making by investors. It was observed by Musyoka (2017) that there was a strong correlation between voluntary disclosure of financial reports and financial prosperity, as well as investment. The findings of Wanjau, Muturi, and Ngumi (2018) suggest that financial openness has a strong and positive effect on the investment strategy, liquidity, and financial performance of companies. Based on the evidence presented, the research determined that the transparent disclosure of financial reporting has an influence on investment decisions.

5.1. CONCLUSION AND RECOMMENDATION

From the ongoing, it was revealed that transparent disclosure in corporate financial reporting has a significant impact of investors' decisions. As such, a lack of transparent disclosure in reporting has a negative impact on investment portfolio and subsequently on investment decision. Consequently, investors would rather place more value on transparency and accountability in reporting to foster efficiency and effectiveness in corporate investment dealings.

In light of the conclusion drawn, the following recommendations were made:

i. To achieve greater levels of transparent disclosure in financial reporting, the external audit should be carried out in stages by a number of different consulting companies rather than by a single accounting firm.
ii. The Securities and Exchange Commissions of countries should develop a search mechanism, or a "corporate profiling" approach of industries or individual businesses that may demonstrate indications of potential abuse of Special Purpose Entities or breach of reporting standards.
iii. Investors should possess an enhanced comprehension of operations and a fundamental understanding of financial analysis in order to make an informed selection of a portfolio. This would provide them with an understanding of the fiscal position and capacity of the firms they decide to invest in.

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