**Financial Reporting Quality and its Effect on Bank Performance and Service Quality Control – Jordan**

**1Mohammad Khalid Al Attar, 2Ahmad Adel Jamil Abdallah & Omran Ahmad Al-Ibbini**

1 Al Zaytoonah University of Jordan - Faculty of Economics and Administrative Sciences - Department of Banking, E-mail: dr\_attarmohammad@yahoo.com

2 Al Zaytoonah University of Jordan - Faculty of Economics and Administrative Sciences - Department of Accounting, E-mail: omran\_al\_ibbini@hotmail.com  
3 Al Zaytoonah University of Jordan - Faculty of Economics and Administrative Sciences - Department of Accounting, E-mail: Ahmeeed83@yahoo.com

**Abstract**

This study aimed to find the relationship of quality of financial reporting and its impact on the performance of the bank and control the quality of service. This article utilized primary data by distributing a questionnaire to the accountants in Jordanian banks, which focused on the effect of the financial reporting quality on bank performance and service quality control. Results showed a positive relationship between the dependent and independent variables from the accountants' point of view, while using a simple regression by SPSS.

**Key words: Financial Reporting Quality, Bank Performance, Control Service Quality, Corporate Governance.**

**1.0 Introduction**

Accounting is generally known as the “language of business” since it assumes the medium in which the performance and position of corporate entities are communicated to the outside world. The language of business is now one that is generally known and understood by most international investors. Accounting provides information by translating events into financial statements under certain rules which define the way in which firms transactions are disclosed and reported. Information is needed by investors to make informed investment decisions (Shroff et al., 2014).

Financial reporting is not only a final out, but the quality of this process depends on each part, including disclosure of the company’s transactions, information about the selection and application of accounting policies and knowledge of the judgments makes (Bushman et al., 2010). Financial information issued by a company has become an essential resource for any market managers, investors, regulatory agencies, society and other stakeholders. Therefore, one of the main questions that arise about the quality of financial reporting is its effect on subsequent performance of a company, i.e. how the market values this higher perceived quality (Healry & Palepu, 2001).

The world banking and financial system is in the terms of the transformation caused by increasing globalization and deregulation (Balakrishnan et al. (2011). Financial innovations such as those available in ATMs, phone banking, internet banking, debit cards, credit cards, agency banking and smartcard applications are taking place at an overwhelmingly fast pace in the global banking industry all as services provided by the bank (Stilitz & Weiss, 1981). Which all need to be controlled by the seniors in the system.

**2.0 Problem Statement**

The dereliction in the application of appropriate property, reliability and accuracy of the information affects the quality of financial statements and thus affect the performance of the bank. The derelictions in the quality control of the bank increases the likelihood that the presence of errors in financial reporting. So from here came the idea of that bank performance and service quality control depend on financial reporting quality of banks.

**3.0 Importance of study**

Show the importance of research in the following points:

1) This study contributes to highlight the important role and appropriate to the quality of financial reports on the performance of the bank and monitor the quality of financial reporting.

2) That highlight the quality of financial reporting and monitoring of the quality of service under this study reduce the risks that may be exposed to banks which leads to improving the performance of banks and on the decisions of investors and the movements of trading in the financial market which leads to attract investment and support the effectiveness, efficiency and transparency of the market, which reflects positively level the financial performance quality of financial reporting of knock and supports confidence in them.

**4.0 Objectives of Study**

This study seeks to achieve the following:

1) Stand on the quality of financial reporting and the effect on the banks performance.

2) To identify the relationship between the quality of financial reporting quality and its effect on the performance of the bank and monitor the quality of service and to identify the relationship between quality control and its effect on quality of service.

**5.0 Hypotheses of the study**

H1: There is no significant relationship between bank performance and financial reporting quality.

H2: There is no significant relationship between service quality control and financial reporting quality.

**6.0 Literature Review**

Hanlon et al. (2014) investigated the relation between tax enforcement and financial reporting quality. Therefore, the government, like other shareholders, has an interest in the accurate reporting of (taxable) income and preventing insiders from corporate funds to obtain private benefits, which should be controlled by managers in one way or another. It was hypothesized and found evidence that higher tax enforcement controlled by the tax authority has positive association with financial reporting quality, also consistent with Comprix et al. (2010). Evidence was consistent with the predictions from the Desai et al. (2007) theory that the tax authority provides a monitoring mechanism of corporate insiders. As a result, tax authority enforcement constitutes as another institutional country level feature that affects financial reporting behavior beyond the existing accounting standards (Ball et al., 2000). Shroff et al. (2014) study examined whether financial reporting quality and credibility affect firm financing and investment decisions. Results indicated that there is no evidence that these improvements in accrual quality lead to changes in investment, investment efficiency or debt financing, this results call into question the interpretation of the growing body of evidence documenting an association between reporting quality and investment efficiency as performance measurement. While it is certainly possible that our setting or analyses is not powerful enough to document this association; at its face value, our results suggest that improvements in reporting quality on its own might not be sufficient to reduce financing frictions and facilitate investment.

Biddle et al. (2009) found that higher quality financial reporting improves capital investment efficiency, leaves unaddressed whether it reduces over – or under – investment, as a performance indicator. This study provides evidence of both in documenting a conditional negative (positive) association between financial reporting quality and investment for firms operating in setting more prone to over-investment (under investment). Firms with higher financial reporting quality also are found to deviate less from predicted investment levels and show less sensitivity to macroeconomic conditions. These results suggest that one mechanism linking reporting quality and investment efficiency is diction of frictions such as moral hazard and adverse selection that hamper efficient performance. Hassan et al. (2008) study investigated corporate governance and financial reporting issues. It specifically discussed on the failure of corporate governance that let to failure in financial reporting. Few cases had been explored in this paper to prove the influence of corporate governance in financial reporting such as Perwaja Steel, Technology Resources Industries (TRI), Transmile, Megan, Malaysian Airlines System (MAS), Port Kiang Free Zone (PKFZ), Enron and WorldCom (WC). Transparency in financial reporting coupled with minority shareholder involvement was foreseen to give a helping hand pertaining to this topic. The accountability of auditors was recommended to ease the corporate governance and financial reporting matter. Beside that the involvement of minority shareholder in preparation of financial reporting would be an added value to improve the corporate governance. Finally the accountability of auditors plays as control elements in carrying the corporate governance agenda towards a better financial reporting (Netto, 2007).

Al-Tahat (2010) examined interim financial reporting in Jordan, analyzing the quality of financial reports in terms of the extent and timeliness of disclosure. Financial disclosure quality was tested for association with board of directors’ characteristics, ownership structure, and attributes of companies. Results revealed that interim financial reports proved to be useful, and were the second most important source of information for investors, after annual reports. According to the study, the quality of disclosure appeared to be moderate, indicating the need to improve the interim financial reports. Al-Sakarneh (2011) investigated the extent of dissemination of financial information by Jordanian companies in the Amman Stock Exchange, by studying the extent of disclosure in financial reporting on the Internet for the year 2010. 84 out of 100 public listed companies had websites. A linear regression analysis showed that profitability and leverage had a significant financial impact reports via the internet. The study found a significant positive relationship between corporation size and the amount of financial communication through the internet; it also found that interim reports had the lowest rate of reporting on the Internet, at 73%. Results were also consistent with Abed et al. (2011) study, which was applied on Jordanian industrial and service companies.

**7.0 Research method**

*7.1 Methodology*

The research was carried out by primary data,, collected by using a structured questionnaire. In terms of purpose, this study can be useful for an extensive range of users including accountants, and other administrative employees in the sector. Information was collected through the questionnaire distributed to accountants in the banking sector, either senior or junior. The data was analyzed by using SPSS statistics 22 software.

*7.2 Sample and Statistical Population*

The statistical population in this study included all the accountants in the banking sector. The questionnaire was distributed among 135 accountants, and 120 where recollected.

**8.0 Measurement**

*8.1 Dependent Variable*

In this research, bank performance and service quality control are the dependent variables. For the measurement of this variable, the research constructed a questionnaire, based on previous studies.

8.1.1 Bank Performance

Organization performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and Objectives) according to Richard et al. (2009) organizational performance encompasses three specific areas of firm outcomes: (a) financial performance (profit, return on assets, return on investment, etc.); (b) product markets performance (sale, market share, etc.); and (c) shareholders return (total shareholders return, economic value added, etc.). The term organizational effectiveness is broader.

8.1.2 Service Quality Control

An assessment of how well a delivered service conforms to the clients expectations. Service business operators often assess the service quality provided to their customers in order to improve their service, to quickly identify problems, and to better assess client satisfaction (Lawrence et al., 2011). The need for a service quality control instruments is justifiably when the increasing importance and growth of the services industry in our economy is considered.

*8.2 Independent Variables*

8.2.1 Financial Reporting Quality

We define financial reporting quality as the precision with which financial reporting conveys information about the firm’s operations, in particular its expected cash flows, and that inform equity investors. This definition is consistent with the Financial Accounting Standards Board Statement of Financial Accounting Concepts No.1 (1978), which states that one objective of financial reporting is to inform present and potential investors in making rational investment decision and in assessing the expected firm cash flows. To enhance comparability with prior studies, we use a measure of accruals quality derived in Dechow and Dichev (2002) as one proxy for financial reporting quality. This measure is based on the idea that accruals improve the in formativeness of earnings by smoothing out transitory fluctuations in cash flows and it has been used extensively in the prior literature. Second, we use a measure of accruals quality proposed by Wysocki (2008) to address limitations in the Dechow and Dichev measure. Finally, in order to capture a more forward-looking aspect of financial reporting quality, we use a measure of readability of financial statements proposed by Li (2008) called the FOF Index. Li shows that the FOF Index associated with earnings persistence and with future firm profitability.

**9.0 Results and Findings**

The reliability coefficient presented by alpha showed a degree of 86.7%, which is relatively high and accepted for scientific research, and gives a good indication on the formulation of the research tool, accuracy, and consistency of the objectives of the study, which enhances the reliability on the results.

*9.1 Descriptive Statistic Results*

Results showed, in table 1 that the largest age percentage is 50%, representing the ages between 26-40 years. However, the lowest categories of the ages of the sample were less than 25 years and 41-55 which stood at 23.3% and 26.7, respectively. The tale showed that 63.3% of the sample was males while 36.7% females. The bachelor degree holders form 73.3% of the total members of the sample whereas the high school degree holders were the lowest and represent a 6.7% only. Income from JD300-600 were the highest and form 60% of the sample of the study whereas 36.7% of the income were above JD601. Moreover, it is indicated that 3.3% of the respondents, which is the lowest percentage, have income that is less than JD300.

**Table 1. Descriptive Statistics (Demographic Characteristics)**

|  |  |  |  |
| --- | --- | --- | --- |
| Demographic variable | Type of independent variable | Value | Percentage |
| Age | Less than 25 | 28 | 23.3 |
| 26-40 | 60 | 50 |
| 41-55 | 32 | 26.7 |
| Gender | Male | 76 | 63.3 |
| Female | 44 | 36.7 |
| Education Level | High School | 8 | 6.7 |
| Bachelors | 88 | 73.3 |
| Masters | 24 | 20 |
| Income | Less than 300 | 4 | 3.3 |
| 300-600 | 72 | 60 |
| 601- 1000 | 32 | 26.7 |
| Above 1000 | 12 | 10 |
| Total | | 120 | 100% |

*What Is the Correlation between the efficiency of ASE on the type of derivatives and Financial Analysts' interest in the Market?*

Pearson correlation is used to answer such a question as in table 2, and for scientific research a correlation of 0.643 and 0.531for both type of dependent variables, namely bank performance and service quality performance, respectively, results showed a strong relationship between the dependent and independent variables, but results were even better and the correlation appeared at a level of 0.000 significance, for bank performance and 0.003 significance for the service quality control.

**Table 2. Pearson Correlation**

|  |  |  |  |
| --- | --- | --- | --- |
|  | AVGF | AVGp | Avgc |
| AVGF Pearson correlation  Sig. (2-tailed)  N | 1  120 |  |  |
| AVGp Pearson correlation  Sig. (2-tailed)  N | .643\*  .000  120 | 1  120 |  |
| Avgc Pearson correlation  Sig. (2-tailed)  N | 531\*  .003  120 | 562\*  .001  120 | 1  120 |

\* Significant at a level of 0.01.

**Table 3. Descriptive Statistics for different factors expected to affect human resource management as in accountant skills and how they practice their roles**

|  |  |  |
| --- | --- | --- |
| Variables | **Mean** | **SD** |
|  | | |
| Financial Reporting Quality | 4.1733 | .54768 |
| Bank Performance | 4.0667 | .75411 |
| Service Quality Control | 4.0750 | .68905 |

The descriptive statistics of all variables investigated in this study were illustrated in table 3. The table shows the descriptive of mean, standard deviation. Using data from 12 observations, the analysis of the sample study also shows that the financial reporting quality were found to have a mean of 4.17, while 4.07 were for the bank performance. It was also proven that the service quality control had a mean of 4.08.

**9.2** **Regression Results**

To test the first main hypothesis Adjusted R Square was used to see the models predictive ability, and simple regression was also used to test the effectiveness of financial reporting quality on bank performance as in tables 4, 5 and 6. I addition to service quality control as in tables 7, 8, 9. Results showed a positive significant relationship between financial reporting quality and bank performance, for t was 4.445 for the auditors’ independency variable at a level of 0.000 significance, so the first-sub null hypothesis was rejected. And the results also showed a positive significant relationship between financial reporting quality and service quality control, and t was 3.315 for the code of ethics variable at a level of 0.000 significance, so also the second-sub null hypothesis was rejected.

**Table 4. Model Summary (First Hypothesis)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | R | R square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .643a | .414 | .393 | .58766 |

**Table 5. ANOVA (First Hypothesis)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Model | Sum of Squares | df | Mean square | F | Sig. |
| 1. Regression   Residual  Total | 6.822  9.670  16.492 | 1  28  29 | 6.822  .345 | 19.754 | .000\* |

\* Significant at a level of 0.01.

**Table 6. Coefficients (First Hypothesis)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Model | Unstandardized Coefficients | | Unstandardized Coefficients | t | Sig. |
|  | B | Std.Error | Beta |
| 1. (Constant)   AVGF | .371  .886 | .838  .199 | .643 | .442  4.445 | .662  .000\* |

Dependent Variable: AVGBP

\* Significant at a level of 0.01.

**Table 7. Model Summary (Second Hypothesis)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | R | R square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .531a | .282 | .256 | .59426 |

**Table 8. ANOVA(Second Hypothesis)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Model | Sum of Squares | df | Mean square | F | Sig. |
| 1. Regression   Residual  Total | 3.881  9.888  13.769 | 1  28  29 | 3.881  .353 | 10.989 | .003\* |

\* Significant at a level of 0.01.

**Table 9. Coefficients (Second Hypothesis)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Model | Unstandardized Coefficients | | Unstandardized Coefficients | t | Sig. |
|  | B | Std.Error | Beta |
| 1. (Constant)   AVGF | 1.288  .668 | .848  .201 | .531 | 1.519  3.315 | .140  .003\* |

\* Significant at a level of 0.01.

**10.0 Summary and Conclusion**

While the purpose of the study is to explore the relationship between financial reporting quality on the bank performance and service quality control in terms of accountants, results showed a positive effect of financial reporting quality on bank performance and service quality control with a significant relationship. For the higher the financial reporting quality is, the better the performance of the bank will be. And the higher the financial reporting quality; the service quality control is expected to be higher.

**11.0 Limitations and Recommendations for Future Research**

The target of this paper was to explore the relationship between bank performance and service quality control with financial reporting quality. Hence, the results may not represent the whole population of accountants, because, in Jordan it is very hard to directly contact with them. The main reason for choosing these variables and not more, in order to not increase the length of the questionnaire, for it is known that the accountants are almost busy the whole day with daily deals, and their time is limited. For that it is recommended to study the importance of overcoming deficiencies in the application of the characteristic of convenience and reliability because they affect the quality of financial statements. Maybe using disclosed financial statements information for the analysis may change the results and even reduce errors in the questionnaire.

**Reference**s

Abed, S., Al-Okdeh, S., & Nimer, K. (2011). The Inclusion of Forecasts in the Narrative Sections of Annual Reports and Their Association with Firm Characteristics: The Case of Jordan. International Business Research, 4(4), 264-271.

Al-Sakarneh, K. (2011). A study on the internet financial reporting disclosure: A case of companies listed in Amman Stock Exchange, Jordan. Unpublished Master Dissertation, University Utara, Malaysia.

Al-Tahat, S. Y. (2010). The timeliness and extent of disclosure of corporate interim financial reporting in Jordan. Doctoral Dissertation. College of Business, Universiti Utara Malaysia.

Ball, R., Kothari, S. & Robin, A. (2000). The effect of international institutional factors on properties of accounting earnings. Journal of Accounting and Economics, 29, 1-51.

Balakrishnan, R., Danninger, S., Elekdag, S. & Tytell, I. (2011). The Transmission of Financial Stress from Advanced and Emerging Economies. Emerging Markets Finance and Trade, 47, 40–68.

Biddle, G. C., Gilles, H., & Rodrigo, S. V. (2009). How Does Financial Reporting Quality Relate to Investment Efficiency. Journal of Accounting and Economics 48(2-3), 112-131.

Bushman, R., Chen, Q., Engel, E. & Smith, A. (2004). Financial accounting information, organizational complexity and corporate governance systems. *Journal of Accounting & Economics* 37, 167-201.

Comprix, J., Graham, R., & Moore, J. (2010). Empirical evidence on the impact of book-tax differences on information asymmetry. Working paper, Syracuse University.

Dechow, P. & Dichev, I. (2002). The quality of accruals and earnings: the role of accrual estimation errors. *The |Accounting Review,* 77, 35-59.

Desai, M., Dyck I. & Zingales, L. (2007). Theft and taxes. Journal of Financial Economics 84, 591-623.

Financial Accounting Standard Board (1978). Statement of Financial Accounting Concept No. 1. Objectives of Financial Reporting by Business Enterprises.

Hanlon, M., Hoopes, J. L. & Shroff. N. (2014). The Effect of Tax Authority Monitoring and Enforcement on Financial Reporting Quality. The Journal of the American Taxation Association, 36(2) , 137–70.

Hassan, M., Haat, C., Abdul Rahman, R. & Mahenthiran, S. (2008). Corporate Governance, Transparency and Performance of Malaysian companies. *Managerial Auditing Journal*, 23, 744-778.

Healy, P. & Palepu, K. (2001). Information asymmetry, corporate disclosure, and the capital market: A review of the empirical disclosure literature*. Journal of Accounting and Economics*, 31, 405-440.

Lawrence, A., Minutti-Meza, M. & Zhang, P. (2011). Can Big 4 versus Non-Big 4 differences in audit-quality proxies be attributed to client characteristics? The Accounting Review, 86(1), 259-286.

Li, F. (2008). Annual report readability, current earnings, and earnings persistence. Journal of Accounting and Economics, 45, 221-247.

Netto, A. (2007). Cooking the books in Malaysia. Asia Times online, Retrieved May 15, 2016 from <http://www.atimes.come/atunes/southest_Asia/IE30Ae01.html>.

Richard, P. J., Devinney, T. M., Yip, G. S., & Johnson, G. (2009). Measuring organizational performance: towards methodological best practice. Journal of Management, 35(3), 718-804. doi: 10.1177/0149206308330560

Shroff, N., Verdi, R. S. & Yu, G. (2014) Information environment and the investment decisions of multinational corporations. The accounting Review, 89(2), 759-790.

Stilitz, J. & Weiss, A. (1981). Credit Rationing in Markets with Imperfect Information. *American Economic Review*, 71,393-410.

Wysocki, P. (2008). Assessing earnings and accruals quality: U.S. and international evidence. Working paper, MIT.