ATESTASI: JURNAL ILMIAH AKUNTANSI
Vol 7, Issue 2, (2024), 1344 - 1361

Investor's Decisions on Financial Reporting: Merger, Aquisition and Consolidation

Rochman Marota [1*]

[*1] Universitas Pakuan, Bogor, Jawa Barat, 16129, Indonesia

Email
rochmanmarota@yahoo.com [1*]

Received: July, 22, 2024 **Revised:** August, 31, 2024 **Accepted:** September, 30, 2024

Abstract

This study examines the critical role of financial reporting quality in influencing investor decision-making during mergers, acquisitions, and consolidations (M&A). The primary goal is to explore how financial reporting's transparency, accuracy, and relevance affect investor confidence and strategic decision-making in complex corporate transitions. The study aims to provide comprehensive insights into the interplay between financial reporting practices and investor behavior by integrating technical and behavioral perspectives. The study adopts a qualitative systematic literature review approach, drawing on secondary data from peer-reviewed journal articles and books. It evaluates key factors such as transparency, financial literacy, and innovations in reporting practices, including integrated reporting and externality accounting, to understand their impact on investor decision-making. The findings highlight that high-quality financial reporting reduces uncertainty and fosters investor trust. Transparent reporting assists investors in identifying risks and opportunities and bridges the gap between corporate disclosures and investor expectations. Discussions reveal investors' behavioral dynamics, differences between institutional and individual decision-making, and the importance of innovative reporting practices in promoting sustainability and accountability. The study has significant practical implications for companies, regulators, and investors. Companies can adopt innovative reporting strategies to attract and retain investors, while policymakers are encouraged to harmonize global reporting standards to enhance reliability and comparability. For investors, the findings underscore the critical role of financial literacy in interpreting complex financial reports. Future research should explore empirical evidence and investigate the long-term impacts of innovative reporting practices across industries and regions.

Keywords: Financial Reporting; Investor Decision-Making; Mergers and Acquisitions; Transparency; Integrated Reporting.

DOI : **https://doi.org/10.57178/atestasi.v7i2.1022**
p-ISSN : **2621-1963**
e-ISSN : **2621-1505**

Introduction

The contemporary global economy has undergone transformative changes driven by mergers, acquisitions, and consolidations (M&A). These processes have become strategic imperatives for organizations aiming to enhance their market position, achieve operational efficiencies, and sustain long-term growth. From multinational corporations to small and medium-sized enterprises, M&A activities are increasingly utilized to access new markets, exploit synergies, and strengthen competitiveness (Dezi et al., 2018). These strategies are particularly significant in a rapidly evolving business environment characterized by globalization, technological advancements, and shifting consumer demands, which compel firms to innovate and adapt. In this dynamic landscape, investors play a critical role in assessing the potential and sustainability of these strategic maneuvers, relying heavily on financial reporting to guide their decisions. Financial reports are indispensable tools in providing key data that investors use to evaluate a company's financial health, operational effectiveness, and strategic direction (Muslim, 2023). The importance of these reports becomes even more pronounced in the context of M&A, where the complexities of valuing entities undergoing structural transitions demand precision and clarity. High-quality financial reporting is essential in mitigating information asymmetry, enabling investors to allocate resources effectively (Assad et al., 2023). However, these same reports, laden with intricacies, introduce significant challenges, such as the potential for misinterpretation and inconsistencies in reporting standards across jurisdictions, complicating investor efforts to discern actual value in high-stakes transactions.

Financial reports face inherent limitations, particularly in complex M&A transactions, despite their pivotal role. Theoretical discussions in financial management have highlighted critical challenges, including the lack of standardized practices and the inherent subjectivity in reporting valuations, goodwill, and post-merger financial performance. Practical concerns, such as the influence of managerial incentives on the accuracy of financial reporting and variations in governance frameworks across regulatory environments, further exacerbate these theoretical challenges. As a result, investors often grapple with uncertainty, navigating conflicting interests and strategic disclosures to discern the reliability of financial data. This narrowing of focus on the intersection of financial reporting and investor behavior during M&A transactions reveals significant stakes, as these decisions involve considerable financial outlays, reputational risks, and long-term corporate performance implications. Investors depend on financial reports not only to evaluate the viability of these transactions but also to anticipate associated risks and potential returns (Shakespeare, 2020). The phenomenon driving this research is the observable gap in understanding how investors interpret and respond to financial reporting in M&A contexts. This issue is particularly critical given the increasing reliance on financial disclosures to substantiate M&A decisions and the heightened demand for transparency and accountability in corporate financial practices.

Recent research has highlighted various critical aspects concerning financial reporting and investor decision-making in the context of mergers and acquisitions (M&A). Chung & Chang (2024) underscore the inherent complexity of financial reporting, revealing its role in amplifying the influence of investor sentiment on stock prices, particularly for firms with challenging valuations. This finding emphasizes how financial report intricacies can impact market dynamics. Kim (2024) demonstrates that investors prioritizing fundamental information tends to reduce financial reporting errors. In contrast, those focusing on managerial incentives may inadvertently increase them, showcasing the dual-edged impact of differing investor strategies. Shri et al. (2024) explore key drivers influencing bank financing decisions in M&A transactions within India, identifying governance structures, regulatory frameworks, and economic stability as pivotal factors. Complementing these insights, Barker & Mayer (2023) propose the concept of "externality accounting," advocating for profit and loss statements incorporating natural capital maintenance, thereby aiming to bridge gaps in existing financial and sustainability reporting standards. Collectively, these studies underscore the complex interplay between financial reporting quality, regulatory environments, and investor behavior in the high-stakes arena of M&A. Further underscoring the significance of financial reporting quality (FRQ) and managerial capabilities, Assad et al. (2023) finds that FRQ positively influences investment efficiency by mitigating underinvestment and overinvestment. Factors such as operational cycles and sales volatility further shape FRQ and the resulting market responses, as detailed by (Asyik et al., 2023). Muradoglu et al. (2024) highlights that initial M&A announcements attract substantial investor attention, often leading to short-term value increases but with potential long-term reversals. Similarly, Suryaningrum et al. (2023) reveal that the managerial acumen of acquirers plays a vital role in determining the success of M&A transactions, influencing operational performance and long-term stock returns. In the financial industry, Widyatama & Narsa (2023) emphasize how visual presentations in integrated reports enhance investor comprehension and decision-making processes. Muradoglu et al. (2024) again point to the substantial market reactions to early M&A announcements, while Chiaramonte et al. (2022) provide a bibliometric review identifying five major research streams in the M&A literature, shedding light on the evolution of this domain. Together, these studies highlight the importance of evaluating nuanced factors such as information presentation, managerial competencies, announcement timing, and broader industry trends when analyzing investor decisions in M&A contexts.

Despite the notable contributions of recent studies, significant gaps persist in the literature regarding the empirical and theoretical understanding of financial reporting and investor decision-making in the context of mergers and acquisitions (M&A). Empirically, while research by Chung and Chang (2024) and Kim (2024) has shed light on the complexities of financial reporting and its influence on investor behavior, these studies predominantly focus on stock price reactions and managerial incentives. This narrow scope leaves broader dynamics, such as how investors interpret and utilize financial reports in shaping their decisions, that need to be explored more. Furthermore, the findings by Shri et al. (2024) regarding governance and regulatory frameworks highlight critical structural factors. However, the psychological and behavioral aspects of investor decision-making still need to be developed in literature. This gap underscores the need for a more comprehensive approach that integrates technical, contextual, and behavioral dimensions of financial reporting in M&A transactions. Theoretical limitations further compound these challenges. Existing frameworks often must fully address the interplay between financial reporting quality, investor psychology, and diverse governance contexts. While Barker and Mayer's (2024) innovative concept of externality accounting offers promising directions for integrating sustainability considerations into financial reports, its practical application in M&A evaluations still needs to be explored. More attention needs to be paid to individual investor perspectives, as most studies, including those by Muradoglu et al. (2023) and Suryaningrum et al. (2023), concentrate on institutional decision-making processes. This omission limits understanding of how personal biases and strategies influence investment decisions. Bridging these gaps is crucial to advancing theoretical and empirical insights into the multifaceted role of financial reporting in investor decision-making during M&A activities.

This study offers a significant contribution by utilizing a systematic literature review (SLR) to analyze the role of financial reporting in shaping investor decisions during mergers, acquisitions, and consolidations (M&A). Unlike previous studies, which often focus on technical or quantitative aspects, this research adopts a holistic approach to explore how investors employ financial reports to assess opportunities and risks in the context of complex corporate transitions. The study aims to uncover how the quality of financial reporting provides relevant and reliable information to investors, enabling them to make strategic decisions in high-stakes scenarios. A central question guides the research: How does the quality of financial reporting influence investor decisions during mergers, acquisitions, and consolidations? This question arises from the need to clarify the strategic role of financial reporting in shaping investment decisions, which are frequently marked by high levels of risk and uncertainty. The primary objective of this study is to bridge gaps in the existing literature by offering in-depth insights for academics, practitioners, and policymakers regarding the relationship between financial reporting quality and investor decision-making. Ultimately, this research aims to promote the development of more transparent and accountable financial reporting practices, fostering greater trust and effectiveness in decision-making within the ever-evolving global business landscape.

Literature Review

Agency and Decision-Making Theories in Financial Reporting

Agency theory provides a critical framework for understanding the relationship between management (agents) and investors or shareholders (principals), particularly in financial reporting (Wagenhofer, 2015). This theory highlights the potential for conflicts of interest arising from information asymmetry, where management often possesses more comprehensive knowledge of a company's financial situation than its investors. Such disparities can lead to opportunistic behaviors, such as financial statement manipulation, which may mislead investors. Transparency in financial reporting plays a vital role in mitigating these conflicts by ensuring that disclosed information accurately reflects the company's financial condition (Permata, 2023). Transparent reporting builds Trust between management and investors, aligning their interests and fostering confidence in corporate governance (Efunniyi et al., 2024). In the context of mergers and acquisitions (M&A), the relevance of agency theory becomes even more pronounced. M&A transactions typically involve high complexity, uncertainty, and financial risk. Asymmetry of information during such processes can exacerbate investor skepticism and hinder effective decision-making. Transparent and reliable financial disclosures are critical in reducing these risks, providing investors with confidence that management's decisions are based on validated data and aligned with long-term strategic goals (Letaifa, 2017). By reducing the potential for opportunism and aligning incentives, financial reporting quality becomes a strategic tool for enhancing investor trust in M&A scenarios.

Decision-making theory complements agency theory by emphasizing the critical role of high-quality financial information in enabling effective investment decisions. Accurate, relevant, and timely data allow investors to evaluate risks, opportunities, and potential synergies, particularly in complex mergers and acquisitions (M&A) scenarios (Vertakova et al., 2021). In such contexts, high-quality financial reporting provides the clarity needed to assess financial stability, intangible assets, and transaction potential, helping investors navigate uncertainties and make informed decisions (Galavotti, 2019; Zhang, 2020). Financial reports bridge the gap between corporate performance and investor expectations. Clear and well-structured financial statements offer insights into critical financial metrics such as cash flow, liabilities, and intangible assets. This comprehensive understanding is crucial in M&A, where complex evaluations demand precision and transparency to reduce uncertainty and support strategic decision-making (Alkaraan, 2021). Behavioral dynamics also play a significant role in how investors process financial reports. Cognitive biases like overconfidence and framing can distort interpretations, particularly among individual investors who may lack the systematic approach of institutional investors. Enhancing financial literacy is essential to equip individual investors to interpret financial data and make rational decisions objectively. Tailored communication strategies are crucial to addressing the unique needs of both investor groups, ensuring that financial reporting effectively supports diverse decision-making processes (Birt et al., 2020).

Financial Reporting Quality and Decision-Making

Financial reporting quality (FRQ) is a cornerstone of effective investor decision-making, providing the transparency and reliability necessary for informed assessments of a company's financial health. High-quality financial reports are characterized by relevance, faithful representation, comparability, verifiability, timeliness, and understandability, as the Financial Accounting Standards Board (FASB) outlines (Sinthumule, 2020). These attributes ensure that financial statements accurately reflect a company's economic reality, facilitating sound investment decisions. The relationship between FRQ and investor decision making is well-documented. High-quality financial reporting reduces information asymmetry between management and investors, enabling more accurate risk assessments and valuation estimates (Saji, 2022). For instance, research indicates that superior FRQ enhances investment efficiency by mitigating issues of underinvestment and overinvestment (Khan et al., 2024). Furthermore, transparent financial disclosures are associated with lower capital costs, as investors demand lower risk premiums when they have confidence in the reported information (Lambert et al., 2007). In the context of mergers and acquisitions (M&A), the complexity of financial reporting increases significantly. Challenges such as valuing intangible assets, assessing goodwill, and integrating disparate financial systems can obscure a company's financial position. Terranova (2021) found that such complexities can amplify investor sentiment, leading to potential mispricing of stocks during M&A activities. This underscores the necessity for meticulous and transparent financial reporting to provide investors with a clear understanding of the financial implications of M&A transactions. Poor financial reporting quality exacerbates information asymmetry, where management possesses more information about the company's prospects than investors. This disparity can erode investor trust and lead to suboptimal investment decisions. For example, deficient financial disclosures have been linked to increased uncertainty and volatility in stock prices as investors struggle to accurately assess a company's value (Abedin et al., 2024). Moreover, inadequate reporting can result in higher capital costs, as investors require greater returns to compensate for the perceived risks associated with information opacity (Nguyen et al., 2021).

Enhancing FRQ requires a multifaceted approach. Adopting international financial reporting standards (IFRS) promotes consistency and comparability across global markets, facilitating better investment decisions (Onah & Edeh, 2024). Comprehensive training programs for financial managers ensure that those responsible for financial reporting possess the expertise to produce high-quality reports. Additionally, rigorous internal and external audits serve as critical mechanisms for verifying the accuracy and completeness of financial statements, thereby reinforcing investor confidence (DeFond & Zhang, 2014). The quality of financial reporting significantly influences investor behavior. High-quality financial statements enable investors to make informed decisions, reducing reliance on speculative information and mitigating behavioral biases. Conversely, complex or opaque financial reports can lead to misinterpretations and suboptimal investment choices. In the realm of M&A, clear and comprehensive financial disclosures are essential for investors to accurately assess the value and potential risks associated with such transactions (Rezaee, 2011). The quality of financial reporting also plays a pivotal role in market efficiency. Markets are considered efficient when stock prices fully reflect all available information. High-quality financial reporting contributes to this efficiency by providing investors with reliable data, enabling stock prices to reflect a company's intrinsic value more accurately. This transparency reduces information asymmetry and fosters investor confidence, leading to more stable and efficient markets (Kim et al., 2024).

Governance and Regulatory Frameworks

Governance and regulatory frameworks are critical in ensuring reliable financial reporting, particularly during mergers, acquisitions, and consolidations (M&A). Effective governance mechanisms—such as boards of directors, audit committees, and internal controls—uphold the integrity of financial disclosures (Manginte, 2024). Boards oversee management and safeguard shareholder interests, while audit committees monitor financial reporting and liaise with auditors to ensure accuracy. Internal controls further enhance reliability by detecting and preventing errors or fraud. Empirical evidence links strong governance mechanisms to higher financial reporting quality, fostering investor confidence and facilitating informed decision-making (Anh et al., 2024). Regulatory frameworks, such as the International Financial Reporting Standards (IFRS), complement governance structures by providing standardized financial reporting guidelines. IFRS harmonizes accounting practices globally, enabling cross-border comparability of financial statements. This standardization is particularly valuable in M&A scenarios, where investors evaluate financial information from diverse jurisdictions. However, implementation challenges persist due to variations in local regulations, enforcement practices, and economic conditions, creating discrepancies that complicate financial evaluations during M&A activities (Tarek, 2023).

Disparities still need to be addressed despite efforts to harmonize financial reporting, governance practices, and regulatory enforcement. These inconsistencies can affect the comparability and reliability of financial information, posing challenges for multinational corporations and global investors (Dunning & Lundan, 2008). For instance, variations in governance standards across countries can impact M&A outcomes, as firms with strong governance practices often transfer these standards to target firms in less-regulated markets (Altunbaş et al., 2023). Understanding these contexts is vital for assessing financial reporting quality and its impact on investor decisions. Innovations in governance, such as incorporating sustainability considerations into financial reporting, are gaining attention. Concepts like "externality accounting," proposed by Barker & Mayer (2023), integrate environmental and social impacts into financial statements, offering a comprehensive view of corporate performance. While these advancements enhance long-term sustainability insights, implementation faces challenges, including developing new measurement methodologies and addressing resistance to change. Nevertheless, such innovations represent a significant step toward improving transparency and accountability in financial reporting, ultimately strengthening investor trust and decision-making.

Behavioral Insights on Investor Decisions

Financial data and behavioral factors, such as cognitive biases and heuristics, significantly influence investor decision-making during mergers and acquisitions (M&A). These psychological dynamics shape how investors interpret and react to financial reports. Common biases, including overconfidence, anchoring, and framing effects, often skew evaluations (Wang, 2023). Overconfidence leads investors to overestimate their knowledge, resulting in excessive risk-taking. Anchoring bias causes reliance on initial valuations while framing effects alter perceptions based on how information is presented (Shah et al., 2021). These biases complicate accurate assessments of a company's financial health, particularly within M&A's intricate dynamics. Initial M&A announcements often trigger significant market reactions. Research reveals that such announcements frequently elicit positive short-term responses due to limited information and heightened emotions (Rasheed et al., 2018). However, these initial reactions may deviate from long-term outcomes, highlighting due diligence's importance in ensuring informed investment decisions (Ali & Hirshleifer, 2017). Emotional reactions, such as optimism and fear, exacerbate decision-making challenges, as investors may overlook critical risks or opportunities in favor of short-term gains.

The behavior of individual investors differs markedly from that of institutional investors. Individual investors are more susceptible to biases and emotional influences, often relying on heuristics or surface-level analyses. In contrast, institutional investors employ systematic and analytical approaches, incorporating a broader array of financial and contextual data into their evaluations (Sahi, 2017). These differences have significant implications for M&A processes, where rigorous analysis is vital to navigating complex risks and opportunities. Financial report complexity further impacts investor decision-making, particularly those with lower financial literacy. For less experienced investors, disclosures involving intangible assets or goodwill valuation can be challenging to interpret, often leading to reliance on external advice or simplified heuristics. Experienced investors, by contrast, are better equipped to analyze complex reports and extract critical insights (Kumar & Goyal, 2015). Clear, well-structured financial reports are essential to ensure accessibility and understanding for all investor groups.

Emotional factors, including fear and optimism, also significantly shape investment decisions during uncertain periods like M&A. Excessive optimism may lead investors to overlook risks, while fear can deter them from pursuing opportunities. These dynamics underscore the need for a balanced presentation that combines financial data with realistic risk assessments to support rational decision-making (Driouchi & Bennett, 2012). Beyond financial and emotional factors, contextual information, such as management reputation, corporate policies, and market conditions, plays a critical role in investor decision-making. Non-financial data complements financial reports by comprehensively understanding a company’s value. For instance, a company with a strong management track record may be viewed favorably, even if its financial reports are complex (Estep et al., 2024). Integrating quantitative and qualitative data highlights the multifaceted nature of investment decisions during M&A.

Transparency and Trust in Reporting

Transparency in financial reporting is essential for building investor trust, particularly in the complex context of mergers and acquisitions (M&A). Precise and accurate financial statements provide stakeholders with reliable insights into a company's financial health, reducing uncertainty and enabling informed decision-making (Andanika, 2024). Transparency mitigates risks associated with misinformation or data manipulation, fostering stronger investor relations (Shahid, 2024). Management plays a critical role in maintaining the reliability of financial disclosures by ensuring reports are accurate, honest, and free from misleading information. Managerial decisions, such as choosing accounting policies and disclosing material information, significantly influence investor perceptions of corporate credibility. During M&A, where integrity is paramount, poor disclosure practices can erode trust and jeopardize transactions (Retzloff, 2023). Achieving transparency is challenging. Variations in financial reporting standards across countries and industries hinder comparability. While International Financial Reporting Standards (IFRS) aim to standardize reporting practices globally, local regulations and market characteristics influence differences in adoption and enforcement (Johri, 2024). Furthermore, the valuation of intangible assets, such as goodwill and brand equity, often involves subjective judgments, complicating transparency efforts. These complexities underscore the need for harmonized standards and enhanced financial management capabilities to ensure transparent and comparable reporting (Ali & Hirshleifer, 2017).

Transparency is critical for fostering investor trust. Reliable financial disclosures assure investors that the information they receive is accurate and relevant, particularly in M&A scenarios involving significant risks. High levels of transparency improve investor confidence, reduce reliance on incomplete or biased data, and enhance access to capital (Naveed et al., 2021). Companies prioritizing transparency tend to attract more investors and strengthen their market position (Reid et al., 2024). Addressing transparency challenges requires global harmonization of reporting standards and the adoption of innovative tools. IFRS harmonization can reduce cross-border discrepancies, providing investors with consistent and reliable information. Innovative approaches like integrated reporting and externality accounting further enhance reporting clarity and accountability. Integrated reporting combines financial and non-financial data into a cohesive report, offering a holistic view of corporate performance. Externality accounting incorporates environmental and social impacts into financial statements, equipping investors with additional insights for evaluating long-term sustainability (Unerman et al., 2018). These strategies support greater transparency and trust, enabling more effective decision-making and strengthening corporate relationships with investors.

Research Design and Method

Study Design

This study adopts a qualitative systematic literature review (SLR) approach to examine transparency and trust in financial reporting, particularly in mergers and acquisitions (M&A). The SLR methodology systematically synthesizes existing studies' findings to understand the research topic comprehensively. The study seeks to identify patterns, key themes, and gaps in existing literature by critically reviewing diverse scholarly sources, contributing to theoretical and practical advancements in the field.

Sample Population or Subject of Research

The research focuses on academic articles, books, and credible reports published between 2011 and 2024. The selected literature addresses core themes such as transparency in financial reporting, investor trust, and financial governance in M&A contexts. Inclusion criteria for the sample include peer-reviewed publications, relevance to the research questions, and the contribution to understanding global practices and challenges in financial reporting. The selection process ensures that diverse perspectives are represented, capturing variations in regulatory and cultural contexts.

Data Collection Techniques and Instrument Development

The data collection process involved an exhaustive search of academic databases, including Scopus, JSTOR, and Google Scholar, using specific keywords such as "financial transparency," "trust in financial reporting," and "mergers and acquisitions." Articles were evaluated based on relevance, publication date, and methodological rigor. The inclusion criteria were tailored to ensure the review incorporated high-quality, contemporary sources. A systematic process of screening titles, abstracts, and full texts was employed to refine the selection of relevant studies.

Data Analysis Techniques

The data were analyzed through a thematic analysis approach. This involved coding and categorizing key findings from the literature into themes such as the role of transparency in fostering investor trust, challenges in reporting standards, and innovations in financial disclosures. Cross-study comparisons were conducted to identify regional and contextual differences. The results of this analysis informed the synthesis of findings, highlighting existing gaps and proposing directions for future research. This method ensured a nuanced and integrative understanding of the topic.

Results and Discussion

Result

This study demonstrates financial reporting quality's integral role in shaping investor decisions during mergers, acquisitions, and consolidations (M&A). High-quality financial reporting, characterized by transparency, accuracy, and adequate disclosure, significantly affects how investors perceive the value of a company. For example, Chung and Chang (2024) highlight that intricate financial reporting is pivotal in influencing investor sentiment, mainly when dealing with firms facing valuation challenges. Financial reports that provide relevant and reliable information enable investors to identify promising investment opportunities and recognize potential risks, as also noted by Kim (2024), who shows that prioritizing fundamental financial data reduces reporting errors. Transparency in financial reports builds confidence among investors by ensuring that the data presented accurately reflects a company's financial health. This confidence is particularly crucial in M&A contexts, where substantial financial stakes and uncertainties are inherent. Assad et al. (2023) observes that high-quality financial reporting mitigates risks such as underinvestment and overinvestment, while Barker and Mayer (2023) emphasize the role of externality accounting in addressing broader information gaps. Transparent and well-structured financial reports provide a foundation for investors to evaluate risks comprehensively. For instance, Shri et al. (2024) explore how governance structures and regulatory frameworks in financial reporting shape decision-making during bank financing in M&A, underscoring the importance of clear disclosures.

The findings also reveal patterns and dynamics in how investors use financial data to make decisions. As demonstrated by Muradoglu et al. (2024), institutional investors employ analytical strategies that integrate quantitative and qualitative factors, enabling a comprehensive understanding of M&A transactions. Conversely, as highlighted by Suryaningrum et al. (2023), individual investors are more susceptible to behavioral biases like overconfidence or framing effects, which can distort data interpretation. These differences underline the need for tailored communication strategies, as institutional and individual investors require distinct approaches to process financial information effectively. However, preparing and presenting financial reports during M&A transactions remains challenging. One major issue is the valuation of intangible assets, such as goodwill and brand equity, which are often difficult to quantify accurately due to subjective methodologies. Widyatama and Narsa (2023) emphasize that visual presentation in integrated reports can aid in resolving some of these complexities. Additionally, differences in global financial reporting standards, as discussed by Shri et al. (2024), pose challenges in cross-border transactions, where uniformity in disclosures is critical to investor decision-making.

Innovations in financial reporting practices offer promising solutions to these challenges. As Barker and Mayer (2023) suggest, integrated reporting combines financial and non-financial data to offer a holistic view of a company's performance, including environmental, social, and governance (ESG) factors. This approach aligns with the findings by Kim (2024), who underscores the value of comprehensive disclosures in reducing uncertainty and supporting informed decision-making. Furthermore, external accounting provides a framework to incorporate external costs and benefits into financial statements, offering a more nuanced representation of a company's sustainability and long-term value. The practical implications of financial reporting quality extend beyond building investor trust. Transparent reporting strengthens relationships with broader stakeholder groups and directly influences the success of M&A transactions. Companies that adopt high-quality reporting practices, as noted by Assad et al. (2023), are better positioned to secure investments and maintain a competitive advantage. Additionally, as explored by Shri et al. (2024), regulatory efforts to harmonize standards further enhance the reliability and comparability of financial disclosures. These findings underscore the necessity of continuous improvement in reporting practices to meet the evolving demands of global investors.

Discussion

The findings of this study demonstrate that the quality of financial reporting plays a critical role in shaping investor decision-making, particularly in the context of mergers and acquisitions (M&A). High-quality financial reporting, characterized by transparency, accuracy, and relevance, is a strategic tool that helps investors evaluate the potential of transactions. Transparent financial reports enable investors to identify risks and opportunities better, increasing their trust in the company. For instance, accurate information about cash flows, assets, and liabilities provides a solid foundation for investors to assess a company's financial stability. These findings underscore the importance of presenting clear and structured information, especially in complex scenarios like M&A. The study also highlights the challenges posed by the complexity of valuing intangible assets such as goodwill, patents, and trademarks, which can impact the quality of financial reporting. Valuing these assets often involves subjective elements that can lead to consistency in reporting. Differences in global financial reporting standards exacerbate the challenges of providing universally understandable information to international investors. These findings emphasize the need for harmonizing reporting standards, such as the International Financial Reporting Standards (IFRS), to reduce disparities and enhance investor confidence in corporate financial reports. In this context, transparency becomes key to fostering clarity and improving strategic decision-making.

The dynamics of investor behavior are another critical focus of this study. Institutional investors, such as pension funds and large financial institutions, tend to adopt more systematic approaches when evaluating financial reports. They integrate quantitative and qualitative data to develop a holistic understanding, often relying on expert teams to conduct in-depth analyses. On the other hand, individual investors exhibit different patterns of behavior, often influenced by cognitive biases such as overconfidence, which leads them to overestimate their ability to interpret data, or framing bias, where their interpretation is swayed by how data is presented. These findings highlight the importance of financial literacy in helping individual investors navigate complex reports. Better financial literacy enables them to reduce the influence of biases and make more rational and informed decisions. Furthermore, the findings suggest that companies should tailor their communication strategies to meet the needs of both institutional and individual investors. In addition to behavioral aspects, the study emphasizes the role of innovation in financial reporting in enhancing transparency and accountability. One notable innovation is integrated reporting, combining financial and non-financial data into a comprehensive document. This approach provides information about a company's operational and financial performance and includes data on environmental and social impacts. For example, integrated reports can detail how a company manages natural resources, carbon emissions, or sustainability initiatives. Such information is increasingly relevant in modern investment contexts, where many investors consider environmental, social, and governance (ESG) factors as part of their decision-making process.

Another innovative approach is external accounting, which incorporates external impacts, such as environmental or social effects, into financial reports. By integrating external costs and benefits into financial statements, companies can provide a more comprehensive picture of their long-term sustainability. For instance, environmental costs from carbon emissions or social benefits from corporate social responsibility (CSR) programs can be reflected in financial statements, offering a more realistic view of a company's operations. This approach helps investors evaluate a company's sustainability and encourages companies to adopt more responsible operational practices. These innovations add significant value for investors when evaluating business strategies, particularly in the complex context of M&A. When financial reporting provides comprehensive and accessible information, investors can make more informed decisions, reduce risks, and increase their trust in the company. Furthermore, these innovations help companies strengthen their relationships with investors and other stakeholders by demonstrating their commitment to transparency and sustainability.

These findings align with agency theory, which emphasizes that transparency in financial reporting plays a critical role in reducing conflicts of interest between management and investors. When financial reports accurately reflect a company's financial condition, investors gain confidence that the information has not been manipulated for managerial advantage, fostering stronger trust and alignment between the two parties (Jensen & Meckling, 1976). Furthermore, the study supports decision-making theory, which asserts that the quality of information is a key determinant of the effectiveness of investment decisions. Reliable and relevant data enable investors to evaluate risk scenarios and potential returns comprehensively. This is especially important in the context of mergers and acquisitions (M&A), where high levels of uncertainty often characterize transactions. High-quality financial reporting gives investors a robust foundation to assess financial stability, intangible assets, and the potential synergies achievable through such transactions (Bamhdi, 2024). The findings also highlight the importance of transparent financial reporting in mitigating information asymmetry, a core principle of agency theory. When financial information is open and relevant, investors can better understand the company's situation, reducing reliance on unfounded assumptions or speculative judgments. This transparency directly enhances decision-making efficiency and reduces the likelihood of investment errors.

Compared with prior research, the findings of this study demonstrate alignment with existing literature while offering fresh perspectives on the relationship between financial reporting quality and investor decision-making in mergers and acquisitions (M&A). For example, Assad et al. (2023) assert that high-quality financial reporting significantly enhances investment decision-making by reducing the risks associated with information asymmetry. Similarly, Widyatama and Narsa (2022) highlight the role of transparency in integrated reporting, which fosters greater investor confidence by comprehensively presenting financial and non-financial information. This research extends these findings by exploring how innovations in financial reporting and behavioral dynamics among investors influence decision-making, offering a broader understanding that incorporates both technical and strategic perspectives. Recent studies further reinforce the multifaceted role of financial reporting in M&A contexts. Chung and Chang (2024) emphasize the complexities inherent in financial reporting, showing how they amplify investor sentiment's impact on stock price movements, especially for firms with challenging valuations. This underscores the critical need for financial disclosures that minimize ambiguities to stabilize market dynamics. Complementing this, Kim (2024) reveals that while investors focusing on fundamental financial information tend to reduce reporting errors, those emphasizing managerial incentives may unintentionally exacerbate them, highlighting the dual-edged nature of reporting practices.

Kharb et al. (2024) expand the discussion by identifying governance, regulatory frameworks, and economic stability as key drivers of bank financing decisions in M&A transactions. These factors resonate with findings from this study, which underscore the importance of harmonized global reporting standards and robust governance structures to support investor confidence. Adding another layer to the discourse, Barker and Mayer (2024) propose "externality accounting," which integrates sustainability considerations into financial reporting, aligning corporate accountability with long-term investor expectations. Behavioral dynamics, another critical aspect of this study, align with prior findings by Muradoglu et al. (2023), who show that initial M&A announcements often drive short-term value increases due to heightened investor attention. However, these gains may reverse over time. This study builds on such insights by delving deeper into how individual versus institutional investors process financial disclosures, shedding light on cognitive biases like overconfidence and framing effects that influence their decision-making. As highlighted by Suryaningrum et al. (2023), managerial capabilities are critical in ensuring M&A success. Their findings on the influence of managerial acumen on operational performance and long-term stock returns align with this study's emphasis on the role of leadership in enhancing financial reporting reliability and strategic communication. Meanwhile, bibliometric reviews such as Chiaramonte et al. (2022) provide a broader framework, identifying key research streams in M&A literature, including the evolving trends in reporting standards and investor behavior.

The practical implications of this study are extensive and valuable for various stakeholders. Companies can leverage these findings to refine their financial reporting strategies by adopting more transparent and innovative practices. For instance, integrated reporting and externality accounting offer a means for companies to present more comprehensive information, enhancing investor confidence and attracting a broader pool of potential investors. These approaches allow organizations to effectively communicate financial and non-financial performance metrics, including environmental and social impacts, which are increasingly relevant in modern investment decisions. Regulators also stand to benefit from this research. By developing policies that promote the harmonization of global financial reporting standards, regulators can reduce inconsistencies in the information provided to cross-border investors. A unified approach to reporting standards, such as greater adherence to International Financial Reporting Standards (IFRS), would facilitate better comparability and reliability of financial data, strengthening investor trust and global market efficiency. For investors, the findings emphasize the critical importance of financial literacy in navigating complex financial statements. Enhanced financial literacy empowers investors to make more informed and rational decisions, mitigating the risks associated with misinterpreting intricate financial data. This is especially crucial in high-stakes contexts such as mergers and acquisitions (M&A), where the quality of financial reporting directly impacts evaluating risks and opportunities.

Conclusions

This study has explored the critical role of financial reporting quality in influencing investor decision-making during mergers, acquisitions, and consolidations (M&A). The research addresses how these elements affect investor confidence and strategic decisions by systematically examining the relationship between transparency, accuracy, and relevance in financial reporting. The findings emphasize the importance of robust financial reporting practices in providing clarity, reducing uncertainty, and facilitating more informed decisions by investors in complex corporate transactions. The study also highlights the interplay between financial reporting, behavioral investor dynamics, and integrated reporting and externality accounting innovations.

The originality of this study lies in its holistic approach to examining financial reporting quality from both technical and behavioral perspectives, offering fresh insights for academics and practitioners alike. Regarding practical and managerial implications, the research underscores the need for companies to adopt innovative and transparent reporting practices to attract and retain investor confidence. Policymakers and regulators can utilize these findings to promote harmonizing global reporting standards, thus fostering comparability and reliability in financial disclosures across jurisdictions. For managers, the study provides actionable insights into improving communication strategies, tailoring them to meet the needs of diverse investor groups, and leveraging innovative reporting tools to enhance the company's sustainability and market appeal.

While the study offers valuable contributions, it also acknowledges certain limitations. The analysis relies on secondary data and a qualitative review of existing literature, which may limit the generalizability of its findings to all contexts. Future research could expand on this work by incorporating empirical studies or exploring the relationship between financial reporting quality and investor behavior across different industries and regions. Additionally, investigating the long-term effects of financial reporting innovations, such as externality accounting, could provide deeper insights into their impact on investor confidence and decision-making. These suggestions encourage further exploration of the themes discussed, supporting the advancement of financial reporting practices in a dynamic global market.

Reference

Abedin, M. Z., Goldstein, M. A., Huang, Q., & Zeng, H. (2024). Forward-looking disclosure effects on stock liquidity in China: Evidence from MD&A text analysis. International Review of Financial Analysis, 95, 103484. https://doi.org/https://doi.org/10.1016/j.irfa.2024.103484

Ali, U., & Hirshleifer, D. (2017). Opportunism as a firm and managerial trait: Predicting insider trading profits and misconduct. Journal of Financial Economics, 126(3), 490–515. https://doi.org/https://doi.org/10.1016/j.jfineco.2017.09.002

Alkaraan, F. (2021). Strategic Investment Decision-making: Mergers and Acquisitions Toward Industry 4.0. In C. L. Cooper & S. Finkelstein (Eds.), Advances in Mergers and Acquisitions (Vol. 20, pp. 39–52). Emerald Publishing Limited. https://doi.org/10.1108/S1479-361X20210000020004

Altunbaş, Y., Khan, A., & Thornton, J. (2023). Do M&As impact firm carbon intensity?11The views expressed in this paper are those of the authors and should not be attributed to the institutions with which they are affiliated.,. Energy Economics, 128, 107197. https://doi.org/https://doi.org/10.1016/j.eneco.2023.107197

Andanika, A. (2024). Measuring the Prospective Efficiency Gains from Restructuring in Mergers and Acquisitions. Advances in Management & Financial Reporting, 2(2 SE-Articles), 110–121. https://doi.org/10.60079/amfr.v2i2.310

Anh, H. T. N., Hoa, N. Q., Tam, D. N. T., & Nga, N. T. H. (2024). INTEGRATING SUSTAINABILITY INTO FINANCIAL REPORTING: A CASE STUDY OF VINGROUP. International Journal Of All Research Writings, 6(5), 7–16. http://ijarw.com/ManuScript/ManuScriptDetails/9b6c4be2-b203-4acc-bdfa-f01011e0d861

Assad, N., Jaafar, A., & Zervopoulos, P. D. (2023). The interplay of financial reporting quality and investment efficiency: evidence from the USA. Journal of Financial Reporting and Accounting, ahead-of-print(ahead-of-print). https://doi.org/10.1108/JFRA-04-2023-0199

Asyik, N. F., Agustia, D., & Muchlis, M. (2023). Valuation of financial reporting quality: is it an issue in the firm's valuation? Asian Journal of Accounting Research, 8(4), 387–399. https://doi.org/10.1108/AJAR-08-2022-0251

Bamhdi, A. M. (2024). Analysis of intangible assets reporting standards and automation in KSA within an Islamic context – a case study. Journal of Islamic Accounting and Business Research, ahead-of-print(ahead-of-print). https://doi.org/10.1108/JIABR-08-2023-0273

Barker, R., & Mayer, C. (2023). Seeing double corporate reporting through the materiality lenses of both investors and nature. Accounting Forum, 1–31. https://doi.org/10.1080/01559982.2023.2277982

Birt, J., Chalmers, K., Maloney, S., Brooks, A., Oliver, J., & Bond, D. (2020). Accounting: Business reporting for decision making. John Wiley & Sons.

Chung, M.-H., & Chang, Y.-K. (2024). Financial Reporting Complexity, Investor Sentiment, and Stock Prices. Finance Research Letters, 62, 105026. https://doi.org/https://doi.org/10.1016/j.frl.2024.105026

DeFond, M., & Zhang, J. (2014). A review of archival auditing research. Journal of Accounting and Economics, 58(2), 275–326. https://doi.org/https://doi.org/10.1016/j.jacceco.2014.09.002

Dezi, L., Battisti, E., Ferraris, A., & Papa, A. (2018). The link between mergers and acquisitions and innovation. Management Research Review, 41(6), 716–752. https://doi.org/10.1108/MRR-07-2017-0213

Driouchi, T., & Bennett, D. J. (2012). Real options in management and organizational strategy: A review of decision-making and performance implications. International Journal of Management Reviews, 14(1), 39–62. https://doi.org/10.1111/j.1468-2370.2011.00304.x

Dunning, J. H., & Lundan, S. M. (2008). Multinational enterprises and the global economy. Edward Elgar Publishing.

Efunniyi, C. P., Abhulimen, A. O., Obiki-Osafiele, A. N., Osundare, O. S., Agu, E. E., & Adeniran, I. A. (2024). Strengthening corporate governance and financial compliance:

Enhancing accountability and transparency. Finance & Accounting Research Journal, 6(8), 1597–1616. https://doi.org/10.51594/farj.v6i8.1509

Estep, C., Griffith, E. E., & MacKenzie, N. L. (2024). How do financial executives respond to the use of artificial intelligence in financial reporting and auditing? Review of Accounting Studies, 29(3), 2798–2831. https://doi.org/10.1007/s11142-023-09771-y

Galavotti, I. (2019). Mergers and Acquisitions as Strategic Decisions BT - Experience and Learning in Corporate Acquisitions: Theoretical Approaches, Research Themes and Implications (I. Galavotti (ed.); pp. 91–124). Springer International Publishing. https://doi.org/10.1007/978-3-319-94980-2_3

Jensen, M. C., & Meckling, W. H. (1976). Also published in Foundations of Organizational Strategy. Journal of Financial Economics, 4, 305–360. http://ssrn.com/abstract=94043Electroniccopyavailableat:http://ssrn.com/abstract=94043http://hupress.harvard.edu/catalog/JENTHF.html

Johri, A. (2024). Examining the Impact of International Financial Reporting Standards Adoption on Financial Reporting Quality of Multinational Companies. International Journal of Financial Studies, 12(4), 96. https://doi.org/10.3390/ijfs12040096

Khan, M. A., Safdar, N., & Irfan, S. (2024). Role of financial constraints and risk-taking on the relationship between financial reporting quality and investment efficiency: emerging and frontier markets' perspective. Journal of Financial Reporting and Accounting, ahead-of-print(ahead-of-print). https://doi.org/10.1108/JFRA-12-2023-0779

Kim, J.-C., Su, Q., & Elliott, T. (2024). Political Regimes, Stock Liquidity, and Information Asymmetry in a Global Context. Journal of Risk and Financial Management, 17(8), 342. https://doi.org/10.3390/jrfm17080342

Kim, J. M. (2024). Economics of information search and financial misreporting. Journal of Accounting Research, 62(3), 1007–1065. https://doi.org/10.1111/1475-679x.12528

Kumar, S., & Goyal, N. (2015). Behavioural biases in investment decision making – a systematic literature review. Qualitative Research in Financial Markets, 7(1), 88–108. https://doi.org/10.1108/QRFM-07-2014-0022

Lambert, R., Leuz, C., & Verrecchia, R. E. (2007). Accounting information, disclosure, and the cost of capital. Journal of Accounting Research, 45(2), 385–420. https://doi.org/10.1111/j.1475-679X.2007.00238.x

Letaifa, W. Ben. (2017). MERGERS AND ACQUISITIONS: A SYNTHESIS OF THEORIES AND DIRECTIONS FOR FUTURE RESEARCH. Risk Governance & Control: Financial Markets & Institutions, 7(1). https://doi.org/10.22495/rgcv7i1art9

Manginte, S. Y. (2024). Fortifying Transparency: Enhancing Corporate Governance through Robust Internal Control Mechanisms. Advances in Management & Financial Reporting, 2(2 SE-Articles), 72–84. https://doi.org/10.60079/amfr.v2i2.173

Muradoglu, G., Peng, N., Qin, H., & Xia, C. (2024). Investor attention and market reactions to early announcements in mergers and acquisitions. International Review of Financial Analysis, 91, 102993. https://doi.org/https://doi.org/10.1016/j.irfa.2023.102993

Muslim, M. (2023). Analysis of Corporate Financial Performance Before and After

Acquisition. Advances in Management & Financial Reporting, 1(2 SE-Articles), 61–70. https://doi.org/10.60079/amfr.v1i2.86

Naveed, M., Farah, M. F., & Hasni, M. J. S. (2021). The transformative role of firm information transparency in triggering retail investor's perceived financial well-being. International Journal of Bank Marketing, 39(7), 1091–1113. https://doi.org/10.1108/IJBM-02-2021-0068

Nguyen, T. T. H., Wong, W.-K., Phan, G. Q., Tran, D. T. M., & Moslehpour, M. (2021). Corporate valuation spurred by information transparency in an emerging economy. Annals of Financial Economics, 16(03), 2150011. https://doi.org/10.1142/S2010495221500111

Onah, K. A., & Edeh, I. T. (2024). The Effect of International Financial Reporting Standards (IFRS) Adoption on Financial Reporting Comparability. International Journal of Advanced Finance and Accounting, 5(1), 48–61. https://doi.org/10.5281/zenodo.11530006

Permata, I. (2023). Insights into Effective Corporate Financial Management Practices and Their Implications. Advances in Management & Financial Reporting, 1(3 SE-Articles), 129–144. https://doi.org/10.60079/amfr.v1i3.194

Rasheed, M. H., Rafique, A., Zahid, T., & Akhtar, M. W. (2018). Factors influencing investor's decision making in Pakistan. Review of Behavioral Finance, 10(1), 70–87. https://doi.org/10.1108/RBF-05-2016-0028

Reid, A., Ringel, E., & Pendleton, S. M. (2024). Transparency reports as CSR reports: motives, stakeholders, and strategies. Social Responsibility Journal, 20(1), 81–107. https://doi.org/10.1108/SRJ-03-2023-0134

Retzloff, C. (2023). Communicating for Success: The Importance of Fairness in Pre-Merger Communication. University of South Florida. https://www.proquest.com/openview/946b1e8c7790faafb5513c4823d6e4f6/1?pq-origsite=gscholar&cbl=18750&diss=y

Rezaee, Z. (2011). Financial Services Firms: Governance, Regulations, Valuations, Mergers, and Acquisitions. John Wiley & Sons.

Sahi, S. K. (2017). Psychological biases of individual investors and financial satisfaction. Journal of Consumer Behaviour, 16(6), 511–535. https://doi.org/10.1002/cb.1644

Saji, T. G. (2022). Asymmetric financial reporting quality and firm size: conditional evidence from an emerging market. Journal of Applied Accounting Research, 23(5), 977–1004. https://doi.org/10.1108/JAAR-10-2021-0264

Shah, S. F., Alshurideh, M., Kurdi, B. Al, & Salloum, S. A. (2021). The Impact of the Behavioral Factors on Investment Decision-Making: A Systemic Review on Financial Institutions BT - Proceedings of the International Conference on Advanced Intelligent Systems and Informatics 2020 (A. E. Hassanien, A. Slowik, V. Snášel, H. El-Deeb, & F. M. Tolba (eds.); pp. 100–112). Springer International Publishing.

Shahid, A. (2024). Exploring Corporate Transparency and Stakeholder Trust. Finance & Audit Research Archive Letters, 1(4), 125–141. http://farajournal.com/index.php/Journal/article/view/29.

Shakespeare, C. (2020). Reporting matters: the real effects of financial reporting on investing and financing decisions. Accounting and Business Research, 50(5), 425–442. https://doi.org/10.1080/00014788.2020.1770928

Shri, C., Saini, N., Kumar, D., & Kharb, R. (2024). Analyzing the Hierarchical Structure of Enablers Affecting Indian Banks' Merger and Acquisition Financing Decisions. Global Business Review, 09721509241227777. https://doi.org/10.1177/09721509241227777

Sinthumule, O. (2020). The Impact and Determinants of the Qualitative Characteristics on the Usefulness of Financial Reporting: Some Evidence from Selected JSE-Listed Firms. http://hdl.handle.net/11602/1643

Suryaningrum, D. H., Abdul Rahman, A. A., Meero, A., & Cakranegara, P. A. (2023). Mergers and acquisitions: does performance depend on managerial ability? Journal of Innovation and Entrepreneurship, 12(1), 30. https://doi.org/10.1186/s13731-023-00296-x

Tarek, A. (2023). Mergers and Acquisitions: Analysing antitrust implications and Regulatory compliance. Available at SSRN 4518461. https://doi.org/10.2139/ssrn.4518461

Terranova, R. (2021). Does Investor Sentiment Drive M&As? https://doi.org/10.2139/ssrn.3880959

Unerman, J., Bebbington, J., & O'dwyer, B. (2018). Corporate reporting and accounting for externalities. Accounting and Business Research, 48(5), 497–522. https://doi.org/10.1080/00014788.2018.1470155

Vertakova, Y., Vselenskaya, I., & Plotnikov, V. (2021). Mergers and acquisitions risk modeling. Journal of Risk and Financial Management, 14(9), 451. https://doi.org/10.3390/jrfm14090451

Wagenhofer, A. (2015). Agency theory: Usefulness and implications for financial accounting. In The Routledge companion to financial accounting theory (pp. 341–365). Routledge. https://www.taylorfrancis.com/chapters/edit/10.4324/9780203074251-13/agency-theory-alfred-wagenhofer

Wang, B. (2023). The Impact of Anchoring Bias on Financial Decision-Making: Exploring Cognitive Biases in Decision-Making Processes. Studies in Psychological Science, 1(2), 41–50. https://www.pioneerpublisher.com/SPS/article/view/412.

Widyatama, A., & Narsa, I. M. (2023). The use of visual presentations for integrated reports in the investment decision-making process. Journal of Applied Accounting Research, 24(1), 106–133. https://doi.org/10.1108/JAAR-09-2021-0238

Zhang, C. M. (2020). Mergers and Acquisitions as Strategic Decisions for a Decision-Making Theory. In S. Finkelstein & C. L. Cooper (Eds.), Advances in Mergers and Acquisitions (Vol. 19, pp. 49–64). Emerald Publishing Limited. https://doi.org/10.1108/S1479-361X20200000019006