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# THE IMPACT OF THE QUALITY OF ACCOUNTING INFORMATION ON THE DECISIONS OF ENTREPRENEURS IN SAUDI ARABIA

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## ABSTRACT

*This research work examines the impact of the quality of accounting information on the decisions of entrepreneurs in the Eastern Province of Saudi Arabia. The focus is on how the internal decisions made in these enterprises are affected by accounting information which is characterised by high quality (relevance, reliability, comparability and consistency). The study used a questionnaire instrument, which targeted the managers of the SMEs across four Chambers in the Eastern Province. Pearson's correlation coefficient was employed to provide a picture of the relationship between the variables. It was followed by multiple regression analysis to determine the direction and significance of the relationship between the variables and to test the hypotheses. The findings reveal a statistically significant positive impact of relevance, comparability and consistency of accounting information on decisions made by entrepreneurs in the Eastern Province. In addition, a statistically insignificant relationship was found in relation to the impact of reliability of accounting information on entrepreneurs' decisions. The Saudi Organization for Certified Public Accountants should educate entrepreneurs on why the quality of accounting information is essential to their decisions. It should also ensure that every accountant in these enterprises is registered in its database and meets the acceptable conditions for practicing the accounting profession.*

**Keywords:** Entrepreneurs, Small and Medium Enterprises, Quality of Accounting Information, Decision-making and Saudi Vision 2030.

## INTRODUCTION

Accounting information is an important element that plays a role in determining the effectiveness and efficiency of the entity using it, especially when it is characterized by quality, which is indispensable in the making of appropriate decisions. A growing body of literature indicates that quantitative financial data create a meaningful means for management to assess historical performance and respond to future uncertainties. This study aims to examine the impact of the quality of accounting information on decisions made by entrepreneurs at small and medium enterprises (SMEs) in the Eastern Province of Saudi Arabia. There is no doubt that SMEs constitute a basic pillar and serve a vital role in supporting the national economy (Ahmad et al., 2020, Ajay & Micah, 2014; Al-Hiyari et al., 2013). It is for this reason that countries



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around the world strive to ensure that SMEs are managed efficiently and effectively. The Saudi Arabian government recently introduced a national transformation programme, Vision 2030, which focuses on SMEs. Vision 2030 aims to diversify sources of income. It is a package of social and economic policies that are designed to free the Kingdom of Saudi Arabia (KSA) from dependence on oil exports and to build a prosperous and sustainable economic future by focusing on the country's strength and policies (Vision, 2030). At present, 950,000 SMEs are registered in the Kingdom for business purposes, and these provide Saudis with employment opportunities (Jadwa, 2019). The number of SMEs operating in the Kingdom suggests that they play a significant role in its economy. A number of studies have been conducted on the effect of quality of accounting information on the decision-making process; most of these studies have focused mainly on large quoted companies (Odar et al., 2015; Awadh et al., 2016; Dabash, 2016; Zugbi, 2016; Altayeb et al., 2017; Boqandora, 2017; Budairi, 2017; Heidhues & Patel, 2019; Al-Matari et al., 2013). To date, and to the best of the authors' knowledge, no published studies have comprehensively examined the role of the quality of accounting information in decision making by entrepreneurs at SMEs in Saudi Arabia, or even in Gulf countries. Against this backdrop, the current research work seeks to explore the impact of the quality of accounting information on decisions made by entrepreneurs. The remainder of this paper presents the survey results in a number of different sections. In particular, Section 2 presents a brief review of the literature. Section 3 describes the methodology of the study. Sections 4 discusses the results obtained from the survey, and section 5 concludes the paper.

## LITERATURE REVIEW

This paper is guided by the agency, stakeholder and institutional theories. However, the agency theory is considered to be most relevant to this study, since it is based on the relationship between one party (the principal) who delegates the work to another party (the agent). In this context, the owners of the business are considered to be the principals, and the managers are the agents. The agent is mainly responsible for making decisions on behalf of the owner based on the available accounting information. Accounting information quality is directly related to the decision-making process; as a result, poor information quality may have adverse effects on the quality of those decisions (Huang et al., 1999; Gómez-Guillamón & Vidal, 2008, Karilainen et al, 2014). For example, Bowen (1993) argued that an error in an inventory database may cause managers to make incorrect decisions, resulting in over-stocking or under-stocking, which could have a severe impact on company profitability and customer satisfaction. Accounting information quality is represented by four attributes that are shown in the hierarchy of qualities described in Figure 1 (Dabash, 2016). These attributes reflect four qualitative characteristics of accounting information that serve as a basis for decision making (Abohashish, 2005; Dabash, 2016, Shields, 1998): the primary qualities of relevance and reliability and the secondary qualities of comparability and consistency. These qualities make accounting information understandable and useful for decision and reporting purposes. The attributes of accounting information quality described in Figure 1 help decision-makers to assess past and future events (Abohashish, 2005; Ali, 2011; Saunders & Robinson, 1989). Relevance of accounting information means that there is a close relationship between the information derived from financial accounting and the purposes for which it was prepared (Shubair, 2006; Obaidat, 2007; Budairi, 2017, Beest & Braam, 2006). The role of relevant accounting information in effective decision making has received the attention of several researchers. For example, Obaidat (2007)



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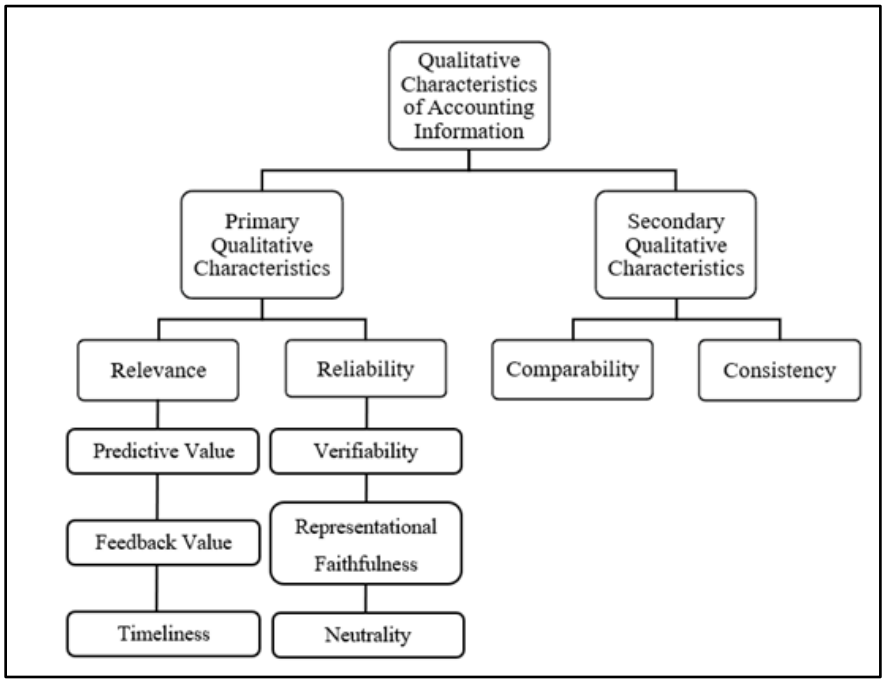
document that financial data are relevant to investors, creditors, and other stakeholders only if they are capable of making a difference in a decision (Hyndman & Connolly, 2011; Farag, 2011; Rich, 2017, Shanks & Darke, 1998).




*Source: (Obaidat, 2007; Dabash, 2016; and Boqandora, 2017)*

**FIGURE 1**
**QUALITATIVE CHARACTERISTICS OF ACCOUNTING INFORMATION**

Obaidat (2007) argued that reliability in accounting information means that it is verifiable, faithfully represented, and is reasonably free of errors and bias. Palazuelos et al., (2017) provide a compelling argument for the link between reliable accounting data and rational decision making. Using a sample of 471 bank loan officers in Spain, and structural equation modelling, the authors conclude that perceived accounting information quality has a positive impact on trust. Odar et al., (2015) conducted a survey on some selected Slovenian companies and found that financial statements are useful if they are characterized by several attributes, including integration and timeliness. Some researchers have studied the relationship between the comparability of accounting information and decision making (Osborne, 2010; Jayasinghe et al., 2015; Xing & Yang, 2018). Xing & Yang (2018), for example, used beta as a measure of risk among companies listed in the Compustat and CRSP databases from 1962 to 2012. They employed regression analysis to measure the impact of comparable accounting information on systematic risk. They found that accounting information quality is a sufficient and necessary condition for reducing exposure to systematic risks. Xu (2003, 2009) developed a framework for linking the relationships between data quality in accounting information systems and stakeholder groups, such as information managers, information users, internal auditors and information producers. The study found that quality of accounting information can be estimated by four dimensions: accuracy, timeliness, completeness and consistency. Ballou et al., (1993) identified consistency as a dimension that takes place when the representation of the data values is the



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same in all cases. Similarly, Budairi (2017) revealed that there is a positive relationship between quality of accounting information, and the level of decisions quality in his empirical study on of selected companies in Iraq. Lack of quality in information may have negative effects on decision making (Huang et al., 1999). For instance, Bowen (1993) believed that any mistake in an inventory database may lead managers to take wrong decision, resulting in over-stock or under-stock, which lead to great impact on the company profitability and customer satisfaction. This view was supported by Klein (1998) who suggests that errors that are stored in the organization database, would ultimately lead to poor decisions. Similarly, Redman (1992) reveals that the organization competitive success may adversely be affected by inaccurate and incomplete data.

Decision making is the heart of administration, which is the starting point for all activities, relationships and interactions with the external environment (Simon, 1997; Farag, 2011). Moreover, the cessation of decision making and actions that take place inside an organization, whatever type, lead to business obstruction, as the importance and gravity of decisions increases as the size of the organization becomes larger, and its activities become more diversified and more in contact with the public (Danos et al., 1989; Kanaan, 1998; Al-Dalabih, 2018). The decision-making process is directly related to management functions, such as planning, organizing, directing and controlling, that take place in each level or activity of an organization (Kyari, 2020). The current study is aimed at determining the link between qualitative characteristics of accounting information (relevance, reliability, comparability and consistency) and the decisions made by entrepreneurs in Saudi Arabia. To do this, the study presents the following hypotheses.

### Hypotheses

*H1: Relevance of accounting information has no significant impact on the decisions made by entrepreneurs in the Eastern Province of Saudi Arabia.*

*H2: Reliability of accounting information has no significant impact on the decisions made by entrepreneurs in the Eastern Province of Saudi Arabia.*

*H3: Comparability of accounting information has no significant impact on the decisions made by entrepreneurs in the Eastern Province of Saudi Arabia.*

*H4: Consistency of accounting information has no significant impact on the decisions made by entrepreneurs in the Eastern Province of Saudi Arabia.*

## METHODOLOGY

This research is explanatory in nature, as it aims to explain and identify the relationship between the quality of accounting information and decisions made by entrepreneurs in the Eastern Province. The population of the study comprises of all the SMEs operating in the Eastern Province; the data which was obtained from the four Chambers in the Eastern Province reveals a total of 39,160 enterprises as at December 2019 (see Table 1). A questionnaire was developed by drawing on instruments that were used in previous studies of quality of accounting information. The questionnaire targeted the managers of 500 SMEs across the four Chambers in the Eastern Province. Questionnaire links were distributed to the targeted sample through email and WhatsApp contacts (on April 15, 2020) provided by the four Chambers in the Eastern Province. The fieldwork relating to this survey was conducted over an 11-day period. A total of three reminders were sent. Different scales were used to construct the questionnaire. For example, a nominal scale was employed mainly in the first part of the questionnaire to obtain background



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details of the participants. A five-point Likert scale was employed in the second part of the questionnaire where respondents were asked to indicate their agreement (from "*Strongly disagree*" to "*Strongly agree*") with statements about the variables of the study.

## RESULTS AND DISCUSSION

The QuestionPro platform shows that a total of 996 persons looked at the questionnaire without completing participation; 603 dropouts and 393 responses were recorded, of which 245 (62%) were useable, as summarized in Table 2. The Table presents the exact distribution of the responses received from the Chambers that constitute this study. To analyse the responses to the questionnaire, SPSS version 23 was used, and descriptive statistics were calculated. Results of the normality test indicate that the data are normally distributed in the histograms of variables, without significant outliers of the values as the points in the Q-Q plot were found to lie on a reasonably straight line. Also, the range of skewness and kurtosis values is near to zero, which is considered acceptable, as suggested by West et al., (1996).

**Table 1**
**SAMPLE SIZE**

| Province | Al-Ahsa Chamber | Jubail Chamber | Qatif Chamber | Sharqiyah Chamber | Total |
|---|---|---|---|---|---|
| Small enterprises | 17,585 | 1,397 | 2,606 | 6,482 | 28,070 |
| Sample size | 17 | 7 | 3 | 95 | 112 |
| Medium enterprises | 3,411 | 1,249 | 1,640 | 4,790 | 11,090 |
| Sample size | 16 | 5 | 3 | 109 | 133 |

*Source: Four Chambers of the Eastern Province*

The Alpha Cronbach coefficient was 0.88, which is relatively acceptable. It is a percentage that makes the questionnaire characterized by consistency, which indicates that the stability factor is high; therefore, it is valid for statistical analysis. Pearson's correlation coefficient and multiple regressions were used to test the hypotheses of the study and explore the relationship between the dependent and independent variables. Table 2 presents demographic information about the respondents. Specifically, the Table provides information on their gender, educational qualifications, specialization, size of the enterprise and the chamber to which the respondents belong. It also reveals the types of decisions that are normally made by the entrepreneurs, their total years of experience, the number of employees and the type of accounting information they keep. The questionnaire yielded 245 useable responses across the Eastern Province Chambers. Of the participants, 80.4% were male, and 19.6% were female. The majority of the respondents were well educated: 86.5% had obtained a bachelor's degree out of which 20.4% held a master's degree. Only a minority (13.5%) held non-graduate qualifications, ranging from a diploma to a high school certificate.

**Table 2**
**DEMOGRAPHICS OF THE RESPONDENTS**

| Statements | Choice of Answer | Total | |
|---|---|---|---|
| | | No. | % |
| Gender | Male | 197 | 80.4 |
| | Female | 48 | 19.6 |



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| | | | |
|---|---|---|---|
| Highest educational qualification | High school certificate | 9 | 3.7 |
| | Diploma | 16 | 6.5 |
| | Bachelor degree | 126 | 66.1 |
| | Master degree | 50 | 20.4 |
| | Other | 8 | 3.3 |
| Specialization | Accounting | 83 | 33.9 |
| | Finance | 23 | 9.4 |
| | Business | 75 | 30.6 |
| | Other | 64 | 26.1 |
| Please indicate which Chamber your enterprise belongs to? | Sharqiyah Chamber | 194 | 79.2 |
| | Al-Ahsa Chamber | 33 | 13.5 |
| | Jubail Chamber | 12 | 4.9 |
| | Qatif Chamber | 6 | 2.4 |
| Which among the following decisions do you normally take? | Human resources decisions | 134 | 54.7 |
| | Procurement decisions | 134 | 54.7 |
| | Production decisions | 78 | 31.8 |
| | Inventory management decisions | 89 | 36.3 |
| | Pricing decisions | 106 | 43.3 |
| | Marketing decisions | 100 | 40.8 |
| Total years of experience | Less than 5 years | 63 | 25.7 |
| | 5-10 years | 70 | 28.6 |
| | 11-15 years | 35 | 14.3 |
| | Over 15 years | 77 | 31.4 |
| Enterprise's activity | Industrial | 46 | 18.8 |
| | Commercial | 89 | 36.3 |
| | Services | 89 | 36.3 |
| | Other | 21 | 8.6 |
| Number of Employees | 10 or less employees | 80 | 32.7 |
| | 11-20 employees | 30 | 12.2 |
| | 21-50 employees | 44 | 18.0 |
| | More than 50 employees | 91 | 37.1 |
| Accounting information system used in the enterprise | Manual | 34 | 13.9 |
| | Semi-automated | 100 | 40.8 |
| | Automated | 111 | 45.3 |

*Source: SPSS Output (2020)*

The mean awarded by the respondents to the statements in Table 3 ranges from 4.13 as the lowest value to 4.49 as the highest value. All the mean scores are significantly different from the neutral response of 3.00. These findings indicate respondents' support for the notion that the quality of accounting information has a significant impact on decisions they made.



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## Correlation Analysis

Preliminary analyses were performed before conducting Pearson's correlation analysis to ensure no violation of the assumptions of normality, linearity and homoscedasticity. Table 4 summarizes the results of the Pearson's Correlation analysis. The results in Table 4 reveal that all the absolute correlation values between the independent variables are below 0.60, which means that their relationship is either weak or moderate. In Pearson's correlation, the larger the absolute value of the correlation, the stronger relationship between the variables, with a maximum value of R=+/-1. The R values were 0.422, 0.307, 0.389 and 0.509, which indicate a positive association between the proxies that represent the qualities of accounting information and decisions made by entrepreneurs at SMEs in the Eastern Province. The correlational values show a moderate relationship between decision making and relevance, reliability and comparability of accounting information, while a strong relationship is found between decision making and consistency of accounting information, with a very high statistical significance ($p < .0001$). Perhaps the reason behind this low relationship between Reliability of accounting information and Decision making is due to the nature of ownership in the sampled SMEs. A large number of the respondents played multiple roles in the enterprises they run; for example, some managers take the role of accountants.

## Multiple Regression Analysis

Multiple Regression was used to compare the predictive ability of the independent variables (Relevance, Reliability, Comparability and Consistency) of the study, and to find the best set of variables to predict the dependent variable (Decision Making). After checking all the assumptions, multi-collinearity violation was not found. In addition, residual scatter plots were generated in order to check the normality, linearity, homoscedasticity and independence of residuals.

Table 5 summarizes the results of the regression analysis. The results reveal 0.378 to be the value of R Square, which means that relevance, reliability; comparability and consistency of accounting information can explain 37.8% of the variance of the decision making of entrepreneurs at SMEs in the Eastern Province. An analysis of Table 5 reveals that consistency has the largest beta coefficient, 0.342, with a p-value of .000 at 5% level of significance. This means that consistency makes the strongest statistically significant contribution in explaining the dependent variable (Decision Making) when the variance explained by all other variables in the model is controlled.

Further, the beta value for relevance was slightly less (0.250), indicating that it makes less of a contribution, with a p-value of 0.000 at 5% level of significance. For comparability, beta was 0.188, with a 0.001 level of significance (p-value <0.05). Finally, the beta value for reliability was 0.081, with a 0.153 level of significance (p-value >0.05). This indicates that such a variable does not make a significant, unique contribution in predicting the dependent variable. The coefficient values and significance levels (p-values) in Table 5 were used to test the hypotheses and answer the research questions of the study.



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**Table 3**
**IMPACT OF QUALITY OF ACCOUNTING INFORMATION ON DECISION MAKING**

| Statements | Mean | SD | Rank |
|---|---|---|---|
| Bias-free accounting information makes better decisions. | 4.49 | 0.591 | 1 |
| Comparability of accounting information from one period to another enhances effectiveness of decision-making process. | 4.43 | 0.565 | 2 |
| Timely accounting information makes better decisions. | 4.43 | 0.566 | 2 |
| True representation of accounting information leads to informed decisions. | 4.4 | 0.611 | 3 |
| Neutrality of accounting information benefits all stakeholders of the firm. | 4.32 | 0.787 | 4 |
| Predictive accounting information facilitates effective decision making. | 4.27 | 0.649 | 5 |
| Accounting information on previous plans enhances future decisions. | 4.27 | 0.703 | 5 |
| Availability of predictive information helps in future decisions. | 4.27 | 0.729 | 5 |
| External auditor strengthens management decisions. | 4.22 | 0.898 | 6 |
| Consistency of accounting information, enhances decision making. | 4.21 | 0.692 | 7 |
| Comparability of accounting information about the firm's competitors enhances decision making process. | 4.15 | 0.759 | 8 |
| Providing clarifications and justifications when switching accounting methods improve decision making process. | 4.13 | 0.778 | 9 |

***Note:*** *A 5-point Likert scale was used in these questions. It ranged from 1= "Unimportant" to 5 = "Very important". The ranking in the column headed Rank is based on the mean of participants. Source: SPSS Output (2020).*

**Table 4**
**PEARSON CORRELATION STATISTICS**

| | | Decision Making | Relevance | Reliability | Comparability | Consistency |
|---|---|---|---|---|---|---|
| Decision Making | Pearson Correlation | 1 | | | | |
| | Sig. (2-tailed) | | | | | |
| | N | 245 | | | | |
| Relevance | Pearson Correlation | 0.422** | 1 | | | |
| | Sig. (2-tailed) | 0 | | | | |
| | N | 245 | 245 | | | |
| Reliability | Pearson Correlation | 0.307** | 0.192** | 1 | | |
| | Sig. (2-tailed) | 0 | 0.003 | | | |
| | N | 245 | 245 | 245 | | |
| Comparability | Pearson Correlation | 0.389** | 0.250** | 0.354** | 1 | |
| | Sig. (2-tailed) | 0 | 0 | 0 | | |
| | N | 245 | 245 | 245 | 245 | |
| Consistency | Pearson Correlation | 0.509** | 0.321** | 0.328** | 0.322** | 1 |
| | Sig. (2-tailed) | 0 | 0 | 0 | 0 | |
| | N | 245 | 245 | 245 | 245 | 245 |

***Correlation is significant at the 0.01 level (2-tailed).*



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*Source: SPSS Output (2020)*

**Table 5**
**REGRESSION RESULT**

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | Collinearity Statistics | |
|---|---|---|---|---|---|---|---|
| | B | Std. Error | Beta | | | Tolerance | VIF |
| (Constant) | 1.607 | 0.229 | | 7.028 | 0 | | |
| M Relevance | 0.206 | 0.045 | 0.25 | 4.586 | 0 | 0.871 | 1.148 |
| M Reliability | 0.049 | 0.034 | 0.081 | 1.435 | 0.153 | 0.822 | 1.217 |
| M Comparability | 0.143 | 0.043 | 0.188 | 3.327 | 0.001 | 0.81 | 1.234 |
| M Consistency | 0.255 | 0.043 | 0.342 | 5.989 | 0 | 0.794 | 1.259 |
| *Summary: $R^2$=0.378; Adjusted $R^2$=0.368; F=36.468; Sig.=0.000* | | | | | | | |

## Test of Hypotheses

### Hypothesis 1

As seen in Table 5, the coefficient of the relevance of accounting information is .250 with a p-value of .000 at 5% significance level. This indicates that there is a positive, statistically significant impact of the relevance of accounting information on the dependent variable (Decision Making). As a result, the null hypothesis is rejected. This result is consistent with the findings documented by Shubair (2006), Jarbou (2007), Hali (2009), Ali (2011), Dabash (2016), Zugbi (2016) and Budairi (2017).

### Hypothesis 2

The results in Table 5 suggest that the reliability of accounting information does not have a significant impact on the decisions of entrepreneurs in the Eastern Province. The Table shows that the coefficient is 0.081, which indicates a positive relation, with a value of .153, which is higher than the specified 5% level of significance. As a result, the null hypothesis is hereby accepted. This finding contradicts those of prior studies that examined the accounting information quality of quoted companies (Farag, 2011; Shubair, 2006; Dabash, 2016; Jarbou, 2007; Hali, 2009; Budairi, 2017; Daya, 2019; Ali, 2011; Zugbi, 2016; Altayeb et al., 2017).

### Hypothesis 3

The coefficient of the comparability of accounting information is 0.188, and the p-value is less than 5% (0.001). This indicates a significant positive impact of the comparability of accounting information on the decision making of the sampled entrepreneurs. As a result, the null hypothesis is rejected. This finding corroborates those of Shubair (2006); Jarbou (2007); Hali (2009); Dabash (2016); Zugbi (2016) and Budairi (2017).

### Hypothesis 4

As seen in Table 5, the consistency of accounting information has a beta coefficient of .342 and a p-value of 0.000. These results indicate a significant positive impact of consistency on the entrepreneurs' decisions. As a result, the null hypothesis is rejected. This is consistent with the studies of Shubair (2006), Jarbou (2007), Hali (2009), Dabash (2016), Zugbi (2016), and Budairi (2017). In contrast, results of this study contradict those of Ali (2011), who found no



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significant association (weak relationship) between the consistency of accounting information and decision making in his empirical study of Algerian firms.

## CONCLUSION

This paper reports the results of a survey of entrepreneurs at SMEs in the Eastern Province of Saudi Arabia on how they perceived the impact of the quality of accounting information on their decision-making process. The survey focused on the relationship between the key characteristics that define accounting quality-relevance, reliability, comparability and consistency-and the decisions made by entrepreneurs. Results indicated a statistically significant relationship between the dependent variable (Decision Making) and three of the independent variables: Relevance, Comparability and Consistency. Hence, the study rejects the first, third and fourth null hypotheses. However, this study accepts the second null hypothesis due to the insignificant statistical association between the reliability of accounting information and decision making. Overall, the findings of this study indicate that the quality of accounting information has an impact on the decisions made by entrepreneurs at SMEs in the Eastern Province. The Saudi Organization for Certified Public Accountants should educate entrepreneurs on how the quality of accounting information is essential to the decisions they make. It should also ensure that every accountant in these enterprises is registered in its database and meets the acceptable conditions for practising the accounting profession. In addition, Chambers of the Eastern Province should encourage SMEs to follow Saudi Corporate Governance regulations that are appealing to them, by providing adequate training on how to apply the guidelines. This will ensure quality of SME's accounting information and improve their decision-making process.

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