

## The Impact of Financial Reports on the Investment Decisions of Middle East Oil Companies

### أثر التقارير المالية على القرارات الاستثمارية لشركات النفط في الشرق الأوسط

**Dr. Hala Ayyed Hadi**

م. د. هالة عايد هادي

Technical Institute Suwayra  
Middle Technical University  
الجامعة التقنية الوسطى  
المعهد التقني الصوير  
halaayyed@mtu.edu.iq

**Zainab Hamid Kateh**

م. زينب حميد كاطع

Institute of Management  
Middle Technical University  
الجامعة التقنية الوسطى  
معهد الادارة الرصافة  
Zandhammed19@gmail.com

**Sanaa Rashed Muheisen**

م. سناء رشيد محسن

Al-Nahrain University  
جامعة النهرين  
المعهد العالي لتشخيص العقم والتقنيات المساعدة للانجاب  
sanaarashed172@gmail.com

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#### Abstract

This research look for to demonstrate the role of balance sheet (assets, liabilities and ownership rights) in rationalizing investment decisions, at a time when the world is witnessing economic transformations and global changes that have become characterized by conditions of uncertainty and risk investing. To achieve the objectives of the research, 25 top oil companies in Middle East in 2019 to 2021 were used to collect as secondary data it was processed using the Stata statistical program. The statistical software Stata 2014 are utilised for variables analysis. The results display there is a positive influence of financial reports (assets, liabilities, and ownership rights) on investment decisions. The significance of companies' interest in disclosing financial reports, especially multi-sector companies, because of their importance because of their characteristics that help them makes investment decisions.

**Keywords:** Financial reports, investment decisions, Middle East, oil companies

#### الملخص

يسعى هذا البحث إلى بيان دور الميزانية العمومية (الأصول والالتزامات وحقوق الملكية) في ترشيد القرارات الاستثمارية، في وقت يشهد فيه العالم تحولات اقتصادية وتغيرات عالمية أصبحت تتسم بظروف عدم اليقين واستثمار المخاطر. ولتحقيق أهداف البحث تم الاستعانة بـ 25 شركة نفط كبرى في الشرق الأوسط للأعوام 2019 إلى 2021 تم استخدامها لجمع البيانات الثانوية وتمت معالجتها باستخدام برنامج Stata الإحصائي. تم استخدام البرنامج الإحصائي Stata 2014 لتحليل المتغيرات. وأظهرت النتائج وجود تأثير إيجابي للتقارير المالية (الأصول، الالتزامات، وحقوق الملكية) على قرارات الاستثمار. أهمية اهتمام الشركات بالإفصاح عن التقارير المالية، وخاصة الشركات متعددة القطاعات، لما تتمتع به من خصائص تساعد على اتخاذ القرارات الاستثمارية.

**الكلمات المفتاحية:** التقارير المالية، القرارات الاستثمارية، الشرق الأوسط، شركات النفط

## 1. Introduction

Since its discovery in the Middle East, oil has occupied an essential position on the map of the strategic and economic interests of the major powers in the world. The strategic importance of oil has increased. In fact, oil was also responsible for the growing importance of the region from an economic perspective in the strategies, policies, and other major powers in our world. The rapid increase in oil revenues resulted in the aspiration to build modern states, which established a rapid flurry of building and construction to establish modern infrastructure and huge spending on the service sectors (education, health, transportation, and communications), which was a source of huge profits for many major companies around the world (Mandel et al., 2021).

Balance sheet is one of the most main sources of information, relied on the beneficiaries of the reports. The information, and through which it is possible to identify the types of the main activities of the establishment and the nature of investments and their level of performance during the previous 1000 years, and the balance sheet are from a number of sources. These reports cannot show a actual role without that information is measured by assets. The supports the decision-making process, as the extent of the “financial reports” rises the assurance of the investor. With financial information and enabling to explain a decision the oil sector was one of the sectors affected by economic changes, so it was shedding light. The impact of the extent of balance sheet (Abbas et al., 2023).

The problem of the study: oil companies need a permanent solution to rationalize a decision, and if i can make an appropriate decision, it must be based on base information. Therefore, the problem of the study is an answer to the main question what is the impact of the financial reports on the investment decisions. The adequacy of the “balance sheet” does not affect the rationalization of the decisions of the top oil companies in the Middle East.

Objectives of the study: The goal of this study is to achieve several objectives, including: Know the impact of the extent of “financial reports”. Study Methodology: This study shows the number of 25 top oil companies in Middle East in 2019 to 2021.

The reports are based on the origins, and the impact of those characteristics will be measured on the rationalization of decisions Touch the investor. Oil companies operating, and in turn, the results will benefit the investors in the oil sector.

Balance sheet are considered the beating heart of any firm, regardless of its kind and objective market, as it is tough for oil firms to establish their “financial management and control their commercial activities without resorting to balance sheet”. The concept of balance sheet is defined as the management tool utilized to communicate key financial information to external and internal as take holders by covering every part of the financial aspects through key performance displays linked to these aspects (Abdullah et al., 2021).

There are several objectives of “balance sheet” to contain diverse features of the oil firm’s work, at all levels. Nevertheless, there is a usual of aims shared to all firms in their numerous fields of work. When making a financial report for a company, the most important objectives of balance sheet appear as follows: firstly, provide information to the management of the oil companies in Middle East, which is utilized for the aim of “planning, analysis, benchmarking and decision-making. Secondly, to provide information to investors, promoters, debt providers and creditors which are utilised to enable them to make rational decisions in relation to investment”, and credit etc. Thirdly, promote “social” welfare by seeing the attention of “employees”, trade unions. Fourthly, “providing information” to shareholders and the public in overall in the case of listed oil

firms about the numerous aspects of the institution. Lastly, provide “information” about the oil companies “economic resources”, rights to those resources (“liabilities and owner's equity”) and “how those resources and claims have different over a period of time and providing information” to the statutory auditors, which in turn assists the auditing process.

Balance sheet help decision-makers to make appropriate decisions for the company, draw appropriate strategies in addition to studying investment opportunities and forecasting the advantages and disadvantages of those investments by tracking the company's financial performance. And reducing the rate of errors the company may face a range of legal problems and damages to the company's profitability in the event of preparing inaccurate financial reports. Accurate balance sheet provides continuous monitoring of funds in all aspects of the company, and reduces errors so that they are not the cause of bigger problems (Abbas et al., 2021). Debt administration it is necessary to use balance sheet, especially accounting reports, in organizing debts through preparing a detailed balance sheet of assets and liabilities.

This paper makes several contributions to financial reports and investment “decisions literature”. Firstly, it investigates oil companies in a “developing market” whereas most prior research had focused on “developed markets”. Secondly, this study measures the financial reports and investment decisions utilising the index. Therefore, this study using the “annual reports” of 25 oil companies in Middle East stock exchange for the period of 2019 to 2021.

## 2. Literature review and Hypotheses Development

The significance of financial is to “providing the necessary information” for the needs of the basic “beneficiaries” that assistance them assess the ability's capacity to make “cash flows” that assistance forecast its “continuity” and attain positive findings and Periodic measurement of the facility's income. The financial reports is to providing “information” that assistances evaluate the ability of the enterprise to generate cash flow, as the enterprise continues its activity and “divides its life into periodic periods” for preparing the “financial statements” utilising the “accrual basis”. Additionally, the financial reports provide “information” on the “sources of funds” existing to the ability and how to utilise these funds and financial reports providing “information” about “cash flows” (for “instance loans to and from the facility”, angel investments, and distributions).

For investment and lending decision makers in Kuwait, it was found that there is no important variance in their views on the importance of the financial statements, but it does not meet all their information needs. A study by Al-Jayousi and Gharaibeh. (1990). The study showed the appropriateness of the financial reports of companies' Jordanian investors' decisions, as well as the extent of their dependence on them in their investment decisions, as it was found that The financial reporting information, from their point of view, is low and insufficient. A study by Al-Issa, (1991) presented the significance of financial statements and the adequacy of their information for investors in Amman financial market, as it turned out to be important to them, but not sufficient from their point of view.

Iraqi securities at the time and whether they used this information in their investment decisions, it have been shown. There is a variation in the level of accepting and use as per the variables of age, experience and the size of the investment portfolio. A study (Al-Rasheed, 2002) studied the importance of accounting disclosure for investors in particular And the rest of the users in general are in Kuwait, and it was found that the annual reports are useless for them Interim reports are of great use to them in making investment forecasts and estimates.

A study by Jarbou. (2007) studied the areas of influence of “accounting information” to the “financial statements” in supporting management decisions of joint stock firms in Palestine and the extent to which they are used in planning and control processes and performance evaluation, and it has been shown that departments depend on it in the performance of its functions and that it uses good cadres to prepare This information in the best way. Study by Zyoud et al. (2007) tries to identify the data and information available in the market Jordanian Finance in order to serve the current and prospective investor, and what information is disclosed. It turns out that there are multiple sources of information and that the financial statements are considered the most significant part of the “financial” reports with and need to provide this information to all investors in a fair manner.

Thus, the importance of information with a financial reports (assets, liabilities and ownership rights), which signifies the restricted package of investment decisions Thus, this paper fills this gap by seeing such link. The next is hypothesised:

H1. The financial reports (assets, liabilities and ownership rights) are positive and strong relation with investment decisions of Middle East top oil companies.

### 3. Research Methodology

This research employed the data of top Middle East oil companies from 2019-2021. The “independent, dependent, and control variables” are employed in this paper, for example, (leverage and profitability). This research, nevertheless, financial reports and investment decisions, and control techniques were employed, as explained in below. Investment decisions measured by employing index (extent) and financial reports measured by utilising index (extent) in the “annual reports”. In the first, the goal was the extent to which they used the information of the “financial reports” of firms. As for the second study, the objective was the extent to which investors understood the investment decisions in the financial reports. It has been shown that the largest part of investors understands this information and it is appropriate for their investment decisions.

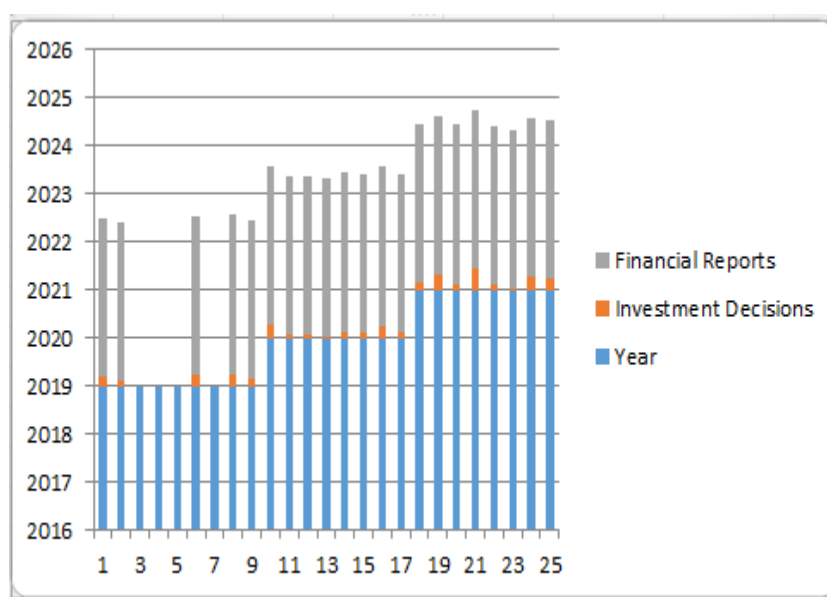


Figure 1 show the variables according to the year

A study by Anderson. (1981) in which he examined the usefulness of published financial reports for investors and managers investment portfolios in Australia, where it was found that the interest in the dividend is very high, with a preference for an increase disclosure of additional information in the financial reports. A study by Kaplen et al. (1990) researched the effect of the speech of the chairman of the “board of directors” and the advice of brokers on investors' decisions, as it was found that they greatly affect the decisions of investors and to greater degrees than other accounting information.

Commenting on previous studies we note from previous studies that it calls for the importance of accounting disclosure for investors in the stock market as the main source for him to obtain information that can help him in making his investment decisions. And the great interest in this subject, theoretically and practically, is evident in the studies Western countries in particular, but on the local and Arab level, there is a need to conduct more studies in this field, especially with the development witnessed by the financial markets in the Arab region and the increase in trading movements. In general, this is the main reason for delving into the current research, as we are looking for new evidence in the Middle East oil companies after the great changes that occurred in it, which gives the study a distinct dimension It encourages researchers to engage in more studies and research on the subject of investment decisions and financial reports.

Other aspects are different reports “with a scale of 0 to 1, where a score of 0 is for “non-disclosure”, 1 for disclosure” for extent as a measure. And a scale of 0, 1, and 2 where a score of 0 is for “non-disclosure”, 1 for disclosure, and 2 for “disclosure” of quantitative information” this is for quality as a measure by using annual reports (Abbas et al., 2022; Topash, 2014 & “Al-Saedi & Abbas, 2023”). Table 1 shows the measurements in the details.

**Table 1:** Variables Measurements

Variable name	Measurement
Investment decisions	Investment decisions are measured using quality with a scale of 0, 1, and 2 where 2 refers to the quantitative information; a score of 1 is for general information disclosure and 0 is for non-disclosure.
Financial reports	Financial reports are measured using extent with a scale of 0, and 1. A score of 1 is for general information disclosure and 0 for non-disclosure.
Leverage	“The percentage of total debts to total assets”.
Profitability	“Return on equity = net Income/shareholders' equity”.

The model is investigation the association between the financial reports and Investment decisions in Middle East oil companies. This paper utilised an “ordinary least squares” (OLS) as a regression test. “This study suggested findings by utilising this model to improve their comparability to that of further reviews. The model below clarifies the association”.

$$INVD_{it} = \beta_0 + \beta_1 FR_{it} + \beta_2 LEV_{it} + \beta_3 PRO_{it} + \varepsilon$$

## 4. Results and discussion

### 4.1 Descriptive analysis

The “descriptive statistics” shows all the variables in the Table 2 in the sample of 25 in top Middle East oil firms in “annual reports” from 2019 to 2021. The investment decisions display a mean with 16.602 and while financial reports displays 10.880.

Table 2 Descriptive analysis

Variables	Obs	Mean	Std. Dev.	Min	Max	Skewness	Kurtosis
Investment decisions	25	16.602	4.730	-1.564	1.879	-0.322	4.507
Financial reports	25	10.880	5.188	0.210	2.800	0.130	4.360
Leverage	25	5.360	1.751	1.100	11.000	1.264	4.736
Profitability	25	0.497	0.111	0.221	0.693	0.321	1.242

The statistical software Stata 2014 are utilised for variables analysis. The mean of leverage was shows as 5.360. “From the descriptive statistics, the range for leverage is wide, with the min 1.100 and the max being 11.000, and mean 5.360”. Profitability, the mean is the 0.497, with min of 0.221 and a max of 0.693.

### 4.3 Correlation analysis

Table 3 presents “Multicollinearity” was not a issue in all variables in this paper because their all values are less than 0.80 (“Hair et al., 2010”). Table 3 shows correlations between financial reports, Leverage and profitability are positively connected to investment decisions.

Table 3 Correlation analysis

Variables	Investment decisions	Financial reports	Leverage	Profitability
Investment decisions	1.000			
Financial reports	0.184*	1.000		
Leverage	0.752***	0.152	1.000	
Profitability	0.122	-0.065	-0.249**	1.000

Note: “\*\*\*Correlation is “significant at the 0.01 level (two-tailed); \*\*Correlation is significant at the 0.05 level (two-tailed); \*Correlation is significant at the 0.10 level” (two-tailed)”.

### 4.4 Regression analysis

Ordinary “Least Square (OLS) regression” is employed to study the research “hypothesis”. This comprises checking for "collinearity" among normality (Table 2), “independent variables”, and “heteroskedasticity” and “variance inflation factor” (VIF) are displayed in Table 4, there are no issue in the VIF in this study the values are less than 10, presenting the absence of heteroscedasticity and multicollinearity in this paper displayed “a p-value less than alpha (5%)”.

Table 4 Regression analysis

Variables	OLS		VIF
	t.stat	sig	
Financial Reports	0.77	0.040**	1.30
Leverage	0.18	0.081*	1.14
Profitability	0.14	0.060*	1.05
Constant	0.22	0.117	
n		25	
R2 (%)		60%	
Adjusted R2 (%)		59%	
F-value	0.75		
p-value	0.55		

The results described for the model display a positive and important link between financial reports (assets, liabilities and ownership rights) with investment decisions (t=0. 0.77, p-value=0.040). The leverage and profitability display a positive and significant relationship with investment decisions.

## 5. Conclusion and Recommendations

### Conclusion

1. The most significant findings found from the study can be revised. There is a positive link among financial reports on investment decisions of top oil companies in Middle East. Proper use of the strategy leads to the oil company's success. This relationship between financial reports and the "elements" of the investment decisions employed in the most significant "recommendations drawn from the study can be revised": "Paying attention to the need to apply modern investment decisions" in Middle East oil companies.
2. The importance of companies' interest in disclosing financial reports, especially oil companies and multi-sector companies, because of their importance because of their characteristics that help them make "investment decisions". In the light of the findings of the research on the issue of "investment decisions" in the "financial reports". The following are for the management of the financial reports of oil companies listed in stock exchange.

### Recommendations

1. This research recommend to paying more attention to the investors category because of their need for financial reports and their great reliance on them when their investment decisions. Providing companies' financial reports to all investors in an easy and convenient manner. Providing financial reports to investors at the end of the related fiscal year and not delaying them for periods its information loses its importance, as is the case now for most companies.
2. Overcoming all difficulties that prevent investors from obtaining financial reports in a form complete. Directing companies' departments to disclose and display all information that would serve investors in their investment decisions. Providing the most detailed additional information "from the financial reports to investors, which can help them guide their investment decisions in the best way

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