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The Effect of Financial Reporting Quality on Investment Decision Effectiveness: The Moderating Role of Investor Financial Literacy

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ABSTRACT

This paper aims to investigate the impact of financial reporting quality on the effectiveness of investment decision and to analyze the moderating role of financial literacy among investors between financial reporting quality and effectiveness of investment decision making. The study is based on Decision Usefulness Theory which posits that quality financial reporting will positively contribute to better investment decisions through reduction of information asymmetry, transparency improvement, and provision of reliable, decision-useful information. It also posits that financially educated investors understand how to interpret accounting information and how to use these to make effective investment decisions. The research design in this study was quantitative and deductive with a total of 239 individual investors were selected as the samples using purposive sampling. SPSS was used to analyze the data, including regression analysis and moderation analysis. The results show financial literacy directly enhances effective investment decisions as well as the effect of financial reporting quality being significant and positive on investment decisions' effectiveness. Furthermore, there was significant positive impact of financial literacy on the relationship linking financial reporting quality with the effectiveness of investment decisions as proxied by the worth gain ratio, suggesting that better investment decision effectiveness is more likely to come from high-quality financial reporting and that this relationship is enhanced by financial literacy. This study contributes to Decision Usefulness Theory by adding investor capability as well as accounting information quality, and it adds to literature on Behavioral Finance by promoting financial literacy not only as a direct determinant, but also as a moderating effect. The research has practical implications for regulators and the corporate and financial sectors looking to enhance reporting transparency, investor competence and, overall, market efficiency, and for educators striving to design programs aware of such developments. The findings validate all the hypotheses and suggest improving the disclosure quality in addition to investor education programmes for rational and informed investment decision. Globally capital markets developing & enhancing stakeholder confidence.

Introduction

The key to financial markets is always the supply of credible, timely, decision-useful information. Corporate financial reporting is one of the most significant means of communicating a firm's economic performance, financial position, risk and prospects for the future among the various types of information that are available to investors (Roychowdhury et al., 2019; Shakespeare, 2020). The value of financial reports, however, is not only identified by its existence but also by its quality, reliability, and usefulness to rational decisions on the economy. Thus, financial reporting quality (FRQ) plays a vital role in the efficiency of the market, in terms of reducing information asymmetry, increasing transparency, boosting investor confidence and enabling better valuation decisions (Shakespeare, 2020; Wittenberg-Moerman, 2008). In such capital markets as those that are still plagued by uncertainty and information complexity, investment will be based on the credibility and interpretability of accounting information (Lev, 2018).

The theoretical arguments underpinning the Financial Reporting Quality (FRQ) are largely based on the decision-usefulness approach which states that financial/Economic decisions should be taken based on information which can be derived from financial reporting (Roychowdhury et al., 2019). Financial reports are considered to be of high quality if the information provided is relevant and faithfully represented, allowing the investor to evaluate firm performance, assess the future cash-flow prospects and estimate the investment risks. Evidence in recent years shows that the quality of reporting conditions have an impact on the investor's reaction as they contribute to information efficiency and lower uncertainty about corporate value (Shakespeare, 2020). Likewise, companies with a higher level of reporting quality will have lower information asymmetry and higher market outcomes because the information disclosed is considered more trustworthy and transparent by the investors (Wittenberg-Moerman, 2008). Hence, the quality of financial reporting is more salient in the world of investors who are required to make investment decisions under incomplete and constantly evolving circumstances (Lev, 2018).

Although financial reporting quality is important, there is no automatic connection between accounting information and the decision to invest. Financial reports are highly technical reports that necessitate analytical abilities, accounting understanding and the capacity to correctly interpret the indication of financial reports. Investors can vary significantly with regards to how they interpret financial information, how they assess risk and how they use accounting information to make investment decisions. The crucial role financial literacy also plays as an individual-level skill, shaping how investors make use of financial information they have available (Lusardi & Mitchell, 2014) is a central theme in this issue. Financial literacy is more than just knowledge of finance and comprises the understanding of financial concepts, assessing investment options, evaluating uncertainty, and using financial information in real-world situations about making financial decisions (Lusardi & Mitchell, 2014).

Notably, recent studies suggest that financially literate investors tend to have more rational investment habits, better investment decisions and greater risk-management skills (Lusardi & Mitchell, 2014; Seraj et al., 2022). For instance, Aren and Zengin (2016) reported that there is a considerable effect of financial literacy on investment preferences as financial literacy positively affects the investors' evaluations of financial alternatives. In the same way, the investors who are financially literate seem less likely to fall victim to behavioral biases and more likely to take better quality investment decisions (Rasool & Ullah, 2020; Ahmad & Shah, 2020). Further, financial literacy has been identified as an important mechanism that enhances the bond between access to information and effective investment. Besides, the well-informed financial investors are better positioned to derive value from complex financial information (Hoque et al., 2026).

Taking the perspective of individual investors, the link between the quality of financial reporting and investor financial literacy is especially relevant. Whilst companies may make a high quality disclosure, the economic advantages of disclosure rely on investors' discrete ability to understand and use the data. They find that financially literate investors more consistently are able to read financial statements and use disclosed information in their judgement, and that less sophisticated investors are less likely to understand the information provided in the financial statements or the incentive information provided. The opposite is a person with less investment expertise who might not understand what accounting information means or using too many shortcuts and sentiments (Adil et al., 2021; Rasool & Ullah, 2020). Hence, financial literacy can be viewed as a boundary condition, whether to what extent financial reporting quality improvement can lead to the effective investment decision is a question of concern (Aren & Aydemir, 2015; Hoque et al., 2026).

Much of the literature has explored financial reporting quality from a firm-level lens, looking at outcomes of better earnings management (Roychowdhury et al., 2019) or more efficient investment (Shakespeare, 2020) or lowered cost of capital, or greater market responsiveness. Few studies, however, have focused on studying the perception of the individual investor about the reporting quality and how the perception impacts investors' decision-making effectiveness. Previous research tends to be based on financial information and market measures obtained from archives, previous research does not capture the cognitive process of investors, their ability to interpret the information, or their experience in decision-making. This is a very important research gap since investment decisions are made by individuals which interpret and act upon the financial information in a different ways (Raut, 2020).

Moreover, while a number of latest behavioral finance papers have examined the determinants or moderators of financial literacy on investment behavior, most of them focus on financial literacy, its relationship and interplay with psychological determinants like overconfidence behaviour, herding behaviour, risk perception and loss aversion (Adil et al., 2021; Ahmad & Shah, 2020). Studies have been limited to finding out whether the informativeness of corporate financial reporting information for effective investment decisions is enhanced by financial literacy (Hoque et al., 2026). This is especially salient due to the rising engagement on financial markets from retail investors who rely on widespread and publicly available corporate disclosures, but who have varying levels of financial awareness (Lusardi & Mitchell, 2014; Goyal & Kumar, 2020).

Hence, this research tries to examine the impact of financial reporting quality upon the effectiveness of investments decision and how financial literacy of investors moderate it. This study is doing in several ways, by combining the information aspect of accounting research with behavioural aspects of financial decision making. Likewise, it is an expansion of the research in financial reporting because it directs the focus from results at the firm level to the decision processes of investors (Roychowdhury et al., 2019). Secondly, this acts as a novel addition to the literature and provides behavioural finance insights as financial literacy can positively impact investment behaviour, and even help facilitate better use of financial information (Aren & Aydemir, 2015; Adil et al., 2021; Hoque et al., 2026). Thirdly, it has practical implications for regulators, the corporate disclosing entities and financial education as it reflects the need to boost disclosure and investor financial literacy (Lusardi & Mitchell, 2014, Goyal & Kumar, 2020).

Thus, the study has three objectives: to assess the relationship between financial reporting quality and impact of investment decisions; to assess the impact of investor financial literacy on the investment decision making effectiveness; and to examine if financial literacy enables to dampen the relationship between financial reporting quality and investment decision making effectiveness. This study is undertaken from an empirical standpoint, adopting a quantitative survey methodology and focussing on individual stock-market investors, it offers evidence on how the quality of accounting information and the capability of investors jointly influence an investment decision. The rest of this paper reviews related literature and establishes hypotheses, outlines research methodology, analyzes empirical results, provides discussion on theories and practical aspects, and ends with limitations and future directions.

Literature Review

Financial information quality and investment decision-making as a research field continue to be a focal point of the accounting, finance and behavioral decision making literature (Roychowdhury et al., 2019; Shakespeare, 2020). Financial markets function in a landscape of unequal access to analytical capabilities among investors and information asymmetry and uncertainty (Bhattacharya et al., 2013; Shakespeare, 2020; Wittenberg-Moerman, 2008). In these settings, corporate financial literacy, and investors' financial literacy matter as a key factor of investment success (Lusardi and Mitchell (2014); Roychowdhury et al. (2019)). While prior studies have largely focused on financial reporting quality from organizational and market perspectives, the focus has been shifting towards understanding the perception, processing, and use of financial information by individual investors in investment decision-making. This section critically examines the concept of financial reporting quality, investment decision effectiveness and financial literacy and sets the study's theoretical basis, suggests relationships between the constructs, and proposes the hypotheses.

Conceptualization of Variables

Financial reporting quality is the accuracy, reliability, transparency and usefulness of financial statements as a disclosure of the true picture of the economy of an organisation (Nobes & Stadler, 2015; Dechow et al., 2010). It symbolizes the competence of accounting reports in minimizing the uncertainty of information and aiding the economic users to make suitable economic decisions (Roychowdhury et al., 2019; Shakespeare, 2020). High quality financial reporting has various characteristics including relevance, faithful representation, comparability, consistency, timeliness and understandability (Nobes & Stadler 2015).

Financial reporting quality is significant because of the nature of financial statements as a medium to communicate with external stakeholders (Lev, 2018; Roychowdhury et al., 2019). Financial reporting assists the investors to analyze the profitability, financial stability, growth opportunities, and investment risks (Lev, 2018). Thus, in addition to the quantity of information provided, quality of the information, that is, whether the information reflects the economic position of the firm accurately, is of great importance (Iatridis, 2010; Dichev et al., 2013). But, the quality of financial reporting is a multi-faceted phenomenon (Dechow et al., 2010). It not only comprises the accounting-based attributes, but also carries information-processing characteristics (Dechow et al., 2010; Nobes & Stadler, 2015). Accounting-based quality relates to factors like earnings quality, manipulation of earnings, conservative recognition and the accurate measurement of financial performance (Bhattacharya et al., 2013; Francis & Wang, 2008; Wittenberg-Moerman, 2008). Disclosure-based quality, on the other hand, is characterised by transparency, clarity, completeness and accessibility of information given to users (Shakespeare, 2020; Lo et al., 2017; Nobes & Stadler, 2015).

From an investor point of view, high quality financial reporting would provide credible information to assess uncertainties of the possible investment choices, thereby reducing the uncertainty (Bhattacharya et al., 2013; Iatridis, 2010). However, having reliable information does not necessarily mean that a good investment decision is made (Dechow et al., 2010). This efficacy of using financial reporting critically relies on the investors' capacity of understanding the data of accounting, interpreting it and applying it suitably. This indicates that investor characteristics can affect whether financial reporting quality affects investment outcomes (Lusardi & Mitchell, 2014). The effectiveness of investment decision-making is defined as the rational and informed decision making by the investors that has objective and is in line with the investors financial goals (Raut, 2020; Adil et al., 2021). A good investment choice is a comparison of alternatives, calculation of returns and risk, information analysis and selection of the best investment option to ensure the possibility of better benefits while managing uncertainties (Roychowdhury et al., 2019; Lusardi & Mitchell, 2014).

According to the traditional finance theories, investors' decision is based on rationally on information available (Roychowdhury et al., 2019). Based on this assumption, investors interpret financial data of stocks and estimate the future performance of them while determining the stocks to be invested on expected risk return relations (Choi et al., 2019; Roychowdhury et al., 2019). Research in behavioural finance, however, suggests that investment decisions often take into account psychological constraints, the carrying capacity of the information processing, emotions, and individual capabilities (Zahera & Bansal, 2018; Adil et al., 2021; Raut, 2020). For individual investors, the effectiveness of investments is even more crucial as they generally have a less track of investment resources when it comes to institutional investors (Lev, 2018). Publicly available financial reports, market information, and personal financial knowledge may be highly relied upon by retail investors. Thus, how effective they are at making decisions depends not just on the types of information they have, but also on how well they interpret the information that they have (Lusardi & Mitchell, 2014).

Information is not enough to make good investments. Media investments should be able to identify relevant financial indicators, evaluate company performance, understand the risk factors, and distinguish between changes being temporary and tasks of value creation (Choi et al., 2019). Thus, the effectiveness of the investment decision is not only derived from the availability of information but also from the quality of information and the capability of the investor (Adil et al., (2021); Raut, 2020). It is the knowledge and understanding, along with the capacity of application about financial concepts in financial decisions (Lusardi and Mitchell 2014; Goyal and Kumar, 2020). For investment, financial literacy can be defined as knowledge of financial products, assessment of potential investments, determining investments' risks, reading financial content and analyzing information in relation to investment decisions (Lusardi & Mitchell, 2014; Klapper & Lusardi, 2019). Financial literacy has emerged as a relevant issue, as more and more individual investors interact with financial markets (Lusardi & Mitchell, 2014; Klapper &

Lusardi, 2019). While professional investors may have access to professional analytical tools and resources, retail investors may be more limited in their options when looking at investment opportunities. Thus, these differences in financial literacy may lead to large differences in financial investment results (Abreu & Mendes, 2010; Raut, 2020).

There are two ways financial literacy can impact investment choices. In the first place, it enhances the investors' skills of analysing the financial information and choosing suitable investment alternatives (Adil et al., 2021; Raut, 2020). Second, to facilitate the effectiveness of external information sources such as corporate financial report (Hoque et al., 2026). Financially literate investors are expected to get greater value from financial disclosure as they have attributes to understand the accounting information and can link one disclosed information with their investment decision more easily (Hoque et al., 2026). Thus, financial literacy can be viewed as an independent variable that affects the investment behavior besides being a possible moderating variable that can indicate whether the effect of financial reporting quality on investment behavior is significant or not (Adil et al., 2021; Ahmad & Shah, 2020).

Theoretical Support

Decision Usefulness Theory is one of the basic theories of accounting research and this study is supported by Decision Usefulness Theory. The view is that the main function of financial reporting is to furnish information useful for decision-making to external users, primarily investors and creditors (Roychowdhury et al., 2019). It is this view that thinks that the accounting information should be able to help the users predict future economic results, appraise the results obtained and take rational decisions on allocating resources. Financial reports are hence useful when they do so in terms of enhancing the users' perceptions of performances of an organization and minimize uncertainty which will arise in making decisions relating to investments (Roychowdhury et al., 2019; Elliott et al., 2019). Decision Usefulness Theory offers explicit theoretical basis to study the relation between the quality of financial reporting and effectiveness of investment decisions. The premise of the theory is that better quality financial information results in better decision making, since investors can base themselves off more accurate, relevant and transparent information when deciding which opportunities to invest in (Biddle et al., 2009; Roychowdhury et al., 2019). In this study, financial reporting quality is measured as quality of information provided for the input in the investment decision, while investment decision effectiveness is measured as quality of the investment decision output.

Decision Usefulness Theory, however, also acknowledges the importance of and the need to account for the characteristics of information users. The value of financial information must be coupled with an ability to interpret and apply the data. This offers theoretical support for the consideration of financial literacy of investors as moderating variable (Lusardi & Mitchell 2014). High quality reporting is expected to be beneficial to financially-literate investors, as investors with stronger capabilities to process and utilise accounting information are likely to benefit more from the quality of reporting (Hoque et al., 2026). Decision Usefulness Theory is applied in this study and offers a number of advantages. It provides a definition of a good financial statement first, which sets out a clear explanation of why financial statement quality should affect investment decisions. Second, it adds investor characteristics as another variable in the usefulness of information in the field of accounting. Third, it enables this study to consider the linkage between accounting and financial psychology views, showing that the information quality and investor capability are both influential on the effectiveness of investment behavior (Roychowdhury et al., 2019).

Financial Reporting Quality and Investment Decision Effectiveness

The quality of financial reporting is likely to be one of the significant factors to improve effectiveness of investment decision-making, as investors rely on company reports in assessing financial opportunities (Roychowdhury et al., 2019; Elliott et al., 2019). Good reports deliver accurate information about profitability, the financial health of a business, the effectiveness of the operations and future outlook (Biddle et al., 2009; Jung et al., 2014). High quality financial reporting enables investors to make financial decisions using more accurate estimates of firm value and the risk they are taking on (Elliott et al., 2019). Transparent reporting mitigates uncertainty and helps investors to compare alternative investment opportunities better (Brown & Hillegeist, 2007). On the other hand, of poor quality reporting it signifies that the information asymmetry increases and could guide investors to wrong valuation decisions and ineffectinger investment decisions (Brown & Hillegeist, 2007; Jung et al., 2014). While there is significant evidence that reporting quality impacts market measures, there is a need to investigate how reporting quality impacts investment decisions made by individual investors (Roychowdhury et al., 2019). May be that financial information is perceived and interpreted differently by individual investors according to their analytical skills and knowledge of finance. On the basis of this argument, the following hypothesis is suggested:

H1: Financial reporting quality has a positive and significant effect on investment decision effectiveness.

Investor Financial Literacy and Investment Decision Effectiveness

Financial literacy is one of the key factors to improve the effectiveness of investing decisions since financially smart investors are more capable at assessing investment options (Lusardi & Mitchell, 2014; Adil et al., 2021). The financial literacy of an individual will lead to a greater likelihood of them analysing financial statements, understanding the risk of investments, diversifying investments and avoiding irrational decisions (Abreu & Mendes, 2010;Adil et al., 2021; Ahmad & Shah, 2020). Investors that have a higher level of financial literacy tend to be more confident and competent at processing financial information. They have better ability to know which pieces of information are valuable and which ones are general market noise before taking into account basic financial measures when choosing investments (Raut, 2020). But, financial literacy doesn't just imply an increase in knowledge, it also denotes a better use of financial knowledge in real life decision making circumstances (Lusardi & Mitchell, 2014). Hence, financially literate investors can more easily convert information available to them into investment actions (Raut, 2020; Adil et al., 2021). Based on this, the following hypothesis is formed:

H2: Investor financial literacy has a positive and significant effect on investment decision effectiveness.

Moderating Role of Investor Financial Literacy

While financial reporting quality does provide a valuable resource for investors to utilize, the values of such information may be conditioned by the power of investors to understand and use the information (Hoque et al., 2026). This indicates that financial literacy could reinforce the bond between the financial reporting quality and the effectiveness of an investment decision (Adil et al., 2021; Ahmad & Shah, 2020). Highly financially literate investors have more analytical skills, which allows them to be better able to identify value in financial information. They are able to think critically about accounting data and can select appropriate performance measures and use the reported data in investment decisions (Abu and Islam, 2016). On the other hand, investors with less financial knowledge may not understand the consequences of good financial reporting work, thus lowering the impact of good financial reporting on the outcome of their decision (Lusardi & Mitchell, 2014; Klapper & Lusardi, 2019). Thus, providing a proper financial literacy is a means to use good information to make good investments. This view is moderating and enriched literature by arguing that the quality of information is not enough and the capability of the investors is the factor that contributes in making the value of information for decision-making (Adil et al., 2021, Ahmad & Shah, 2020 and Hoque et al., 2026). Therefore, the third hypothesis is put forward:

H3: Investor financial literacy positively moderates the relationship between financial reporting quality and investment decision effectiveness.

Conceptual Framework

Decision Usefulness Theory and literature surveyed were used as bases to develop a moderated conceptual framework for this study. The primary factor of the information quality to influence the effectiveness of investment is assumed as quality of financial reporting. Investor financial literacy plays a role as a mediator that enhances the effect of financial reporting quality as well as serves as an independent variable that directly predicts the effectiveness of investing. The proposed conceptual framework can be portrayed as shown:

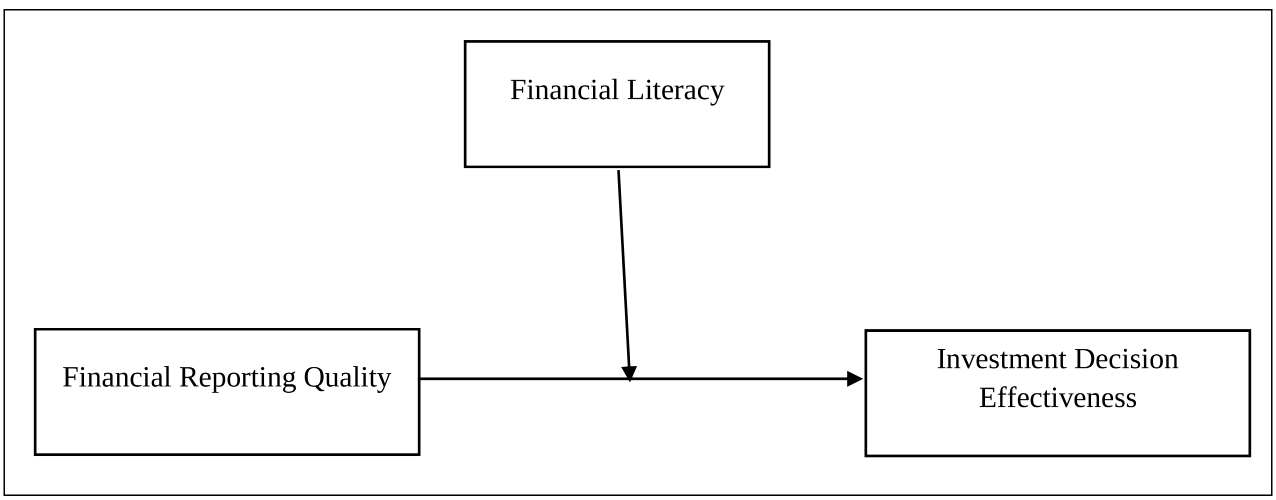

Figure 1: Conceptual Framework

The scenario is that the better the financial information provided by the firms, the more effective the investment decisions could be by the investors. It is dependent, however, upon investors' monetary information. It seemed to have assumed that the more an investor knows about finance, the more he/she benefits in making decisions based on high quality financial reporting, than can investors with limited financial capabilities.

Research Methodology

The research methodology used in this study is quantitative research with an empirical study to test the relationship between variables namely financial reporting quality, investment decision effectiveness and the moderating variables of investor financial literacy. The methodological design is formulated to measure, analyse statistically, and test the hypotheses between the variables of the study in a systematic way. The research topics studied seek to explore the relationship between these factors or variables and are more measurable in nature; therefore, a structured and objective approach in the methodological approach is considered suitable to examine the driving forces of one variable on another. Results indicated a research philosophy that is positivist, a research approach that is deductive, a research design that is quantitative, a data collection method that is questionnaires, a sampling done purposively, a statistical analysis using regression and moderation in SPSS, as being followed (Lim, 2024; Park et al., 2020; Ahmad & Shah, 2020; Ahmad & Wu, 2022). The research philosophy can be thought of as the underpinning philosophy that is inherent in a research study in most cases and reflects the way in which knowledge is produced and reality can be examined. This study follows the positivist philosophy that social phenomena can be objectively measured, analysed and explained based on systematic observation and empirical tests. Positivism also assumes that relationships between variables are not dependent on the researcher and we can discover statistical and measurable evidence for the relationships. The purpose of this study is not to gain personal experience nor to come up with a personally subjective interpretation but rather to see if there is a significant link between financial reporting quality investments and decisiveness or if the financial literacy of investors affects this link. As a result, the philosophy of positivism is suitable to use as postulation, as all three constructs can be operationalized through measurable indicators and by statistics (Park et al., 2020; Babones, 2016; Baskarada & Koronios, 2018).

There were several thoughts why the alternative philosophies, including interpretivism and pragmatism do not seem appropriate for this research. The concept of interpretivism is about gaining understanding of subjective meanings, personal experiences and social realities through qualitative exploration. While there might be behavioural components in investors' perceptions but the aim of this study is to measure the strength and direction of relationships between predefined variables. Likewise, pragmatism emphasizes building methodological flexibility, attempting to tailor methods to the research problems encountered, but the present investigation needs a methodological structure, namely a hypothesis-testing framework. Adopting the positivism thus increases the objectivity, reliability, replicability and consistency in the analysis of these proposed relationships. It also enables the researcher to analyse the results statistically and not interpret them (Park et al., 2020; Pretorius, 2024; Baskarada & Koronios, 2018).

Research design is the overall plan, structure and framework by which the investigation is carried out to address the research objectives. The design of this research is a quantitative research where the purpose is to find the relationship of financial reporting quality, financial literacy and effectiveness of investment decisions through numerical data. The quantitative design is especially applicable when researchers want to test theoretical relationships, examine causal patterns, and statistical significance of the relationships of variables. Financial reporting quality is considered to be a measurable construct here, as it was in the cited previous studies, while the necessary questionnaire items were based on Likert-scale responses to measure investor financial literacy and investment decision effectiveness (Lim, 2024; Akhtar & Das, 2019; Suresh, 2024; Kumar et al., 2023; Agarwal et al., 2025). A qualitative research design was excluded from this design since the main aim of this study is to provide an answer to a research question. While qualitative studies can have more penetrating power in the understanding of investor behaviour at the level of the individual, they are not as suitable to test hypotheses and show the force of a relationship between variables. In a quantitative design data will be collected from a greater number of investors, in a standardised fashion to allow statistical comparisons and generalisable conclusions. In addition, the quantitative method enables regression analysis and moderation testing, which play a crucial role in assessing the proposed conceptual framework (Lim, 2024; Park et al., 2020; Babones, 2016).

This type of research will use deductive reasoning. By having the start of the process in the theoretical assumption, a deductive approach moves through the process by making hypotheses that are based upon existing know-how and then testing those hypotheses with the empirical evidence. This aligns with the present study as the postulated relationship between financial reporting quality, investment decision effectiveness and financial literacy in the present study is based on an existing theory and needs to be empirically proved (Park et al., 2020; Ahmad & Shah, 2020; Ahmad & Wu, 2022; González-Prida et al., 2025). A theory-based, or deductive, approach that creates a theory based on observation and the data gathered was not appropriate in this study since it is not aimed at producing a new theory, but rather the goal is to see if the expectations given in the previous theories hold in the context of individual investors in the stock market. The deductive approach offers a systematic route for developing theory to testing it empirically. It creates clear clues for the research because there are preconceived hypotheses, and there is the same nature between the objective of the research, the instrument for measuring the data and the statistical analysis. Moreover, it increases the scientific validity of the study as it enables the results to either support, reject, or enhance the contemporary theoretical assumptions (Ahmad & Wu, 2022; Ahmad & Shah, 2020).

Research strategy is how empirical data will be gathered to accomplish the objectives of the research. A survey research approach is used in this study since it allows the collection of information from a relatively large number of response groups in terms of both perceptions and knowledge and decision making behavior. The current study on financial literacy, perceived quality of financial reporting and its effectiveness on investment decision making is also particularly suitable for survey research as the variables under study are unobservables and thus must be measured with the aid of respondent assessment (Akhtar & Das, 2019; Adil et al., 2021; Ahmad & Shah, 2020; Ahmad & Wu, 2022). This research benefits from the survey strategy in that it offers some benefits. Firstly, data collected using it will be from multiple respondents and be measured in a standardised way which makes it easier to compare across respondents. Secondly, it enables scientists to examine possible trends and relationships between factors statistically. Third, surveys can be done in a time efficient manner, with minimal resource usage and can be accessed by geographically dispersed investors. Case studies or experimental methods were also thought to be unsuitable as they tend to represent individual cases and/or structured settings and do not fully reflect the general investment patterns and perceptions of individual investors as reported by Akhtar & Das (2019), Lim (2024), and González-Prida et al. (2025).

For this study, its data will be collected using a structured questionnaire via individual investors who are actively involved in the activities of investment in the stock market. The questionnaire includes measurement items which are directed towards test takers' perception about financial-reporting quality, financial-literacy and effectiveness of investment decisions. The responses to the statements collected using a Likert scale, which quantifies the extent of agreement or disagreement and so on, thereby quantifying subjective perceptions to measurable quantitative data (Suresh, 2024; Adil et al., 2021; Agarwal et al., 2025; Kumar et al., 2023; Rasool & Ullah, 2020). Target population of this study are the Individual Investors who actively participate in the stock market in case of Ahmad & Shah (2020) and Raut (2020). However, individual investors are an important research group as they are often individual users of publicly available information on companies including company reports and their financial statements when considering investment opportunities (Nguyen et al., 2025; Khan et al., 2024). Retail investors, individual investors, active investors in the stock market, members of investment clubs and Associations, and customers of brokerage companies with direct investment experience are included in the study (Adil et al., 2021).

Finally, 239 respondents make up the sample. According to Jenkins & Quintana-Ascencio (2020), Lakens (2021) and Giner-Sorolla et al. (2024), this sample size is adequate for quantitative analysis as it allows for the examination of the relationship between multiple variables and regression/moderation analysis. The sampled respondents is by the method of purposive sampling (Adil et al., 2021). A purposive sampling method is used to choose the respondent of the study who has characteristics related to the purpose of the study (Adil et al., 2021). In this study, the respondents are intentionally selected due to the fact that they have direct experience for making stock market investment decisions and therefore they can evaluate financial data and financial outcomes (Ahmad & Shah, 2020).

However, not implementing probability sampling techniques is because a complete list of individual investors of the stock-exchange is difficult to obtain (Raut, 2020). In addition, the studies depend on a group of people who have an experience of investing and not on the general population group (Adil et al., 2021). To achieve data practicality for the research finding, data should be obtained from respondents who are in direct relation with the research question through a sampling technique called purposive sampling (Adil et al., 2021).

Data collected are analysed in Statistical Package for the Social Sciences (SPSS). The direct link between financial reporting quality, financial literacy and the effectiveness of investment decisions is examined by regression analysis (Khan et al., 2024; Ahmad & Shah, 2020). The reason for using regression analysis is that it assesses how variables change in magnitude, direction and statistical significance with each other (Jenkins & Quintana-Ascencio, 2020; Lakens, 2021). Besides, a moderation analysis is done to explore whether there was a significant relationship between financial reporting quality and investment decision effectiveness if investor financial literacy is considered as a moderating variable (Ahmad & Shah, 2020; Adil et al., 2021). This analytical approach allows for the study to test all of their proposed hypothesis and statistically evaluate the proposed conceptual framework (Ahmad & Shah, 2020).

During the research process strict ethical principles are adhered to in order to protect, rights and wellbeing of all those involved (O'Sullivan et al., 2021). Respondents receive clear information about the purpose of the study, the voluntary nature of participation in it, and respondents' right to not continue with the study or questionnaire without negative repercussions, before completing the questionnaire (Mondal et al., 2023; O’Sullivan et al., 2021). All the participants are informed about it beforehand and provide the informed consent prior to the data collection.

There is no compulsion or influence on the respondent by any means. Moreover, there are strict confidentiality and anonymity measures in place (O'Sullivan et al., 2021). No personally identifiable information is included and persons answering the questions remain anonymous during the entire research process (Mondal et al., 2023). The data that is collected will be used only for academic purpose and will be secured against unauthorized access (Mondal et al., 2023). Results are summarized such that responses of individual subjects cannot be identified (O'Sullivan et al., 2021). Such ethical considerations ensure that the research will be conducted in a way that adherens to responsible research practices, while also providing transparency, protection for the participants and academic integrity (O'Sullivan et al., 2021).

Results and Discussion

Introduction

This section describes the empirical results of the study and discusses the results with respect to the research model that was proposed. The analysis aims to investigate the relationship of Financial Reporting Quality (FRQ) and Investment Decision Effectiveness (IDE) moderated by Investor Financial Literacy (FL). The data was analyzed by descriptive statistics, reliability and validity test, correlation and regression test and moderation analysis by applying SPSS. Prior to exploring the connection between variables, the demographic data of the respondents were analysed to determine the profile of the investors that participated in the research. Then, data were tested for normality (normality tests), reliability (reliability tests), and validity (validity tests) to determine whether they met the requirements for data analysis using statistical procedures. Finally, regression analysis and moderation analysis was conducted to test the proposed hypotheses. This study is based on a sample of 239 individual investors who are active in stock-market investment activities. The individual investor perception and decision-making attitude examined in this research will be complemented with information on the demographic aspects of the sample as an important background information regarding the sample.

Demographic Analysis of Respondents

Demographic characteristics of the respondents were analyzed according to gender, age, education level, monthly income and employment characteristics. Demographic characteristics of the respondents are given in Table 1.

Table 1: Demographic Analysis

Demographic Variable	Category	Frequency	Percentage (%)
Gender	Male	156	65.3
	Female	83	34.7
Age	Below 25 years	48	20.1
	25–34 years	96	40.2
	35–44 years	63	26.4
	Above 45 years	32	13.3
Education	Undergraduate	54	22.6
	Bachelor’s degree	89	37.2

	Master’s degree	76	31.8
	Professional qualification	20	8.4
Monthly Income	Below $1,000	61	25.5
	$1,000–$2,500	92	38.5
	$2,501–$5,000	59	24.7
	Above $5,000	27	11.3
Employment Status	Private sector employee	92	38.5
	Public sector employee	47	19.7
	Business owner	53	22.2
	Student	29	12.1
	Retired/Other	18	7.5

The demographic data shows the majority of the respondents were male (65.3%) and female investors responded (34.7%). This is due to the fact that historically more men than women are involved in investing and trading in the stock market. But the representation of female investors shows rise of participation of women in financial markets. As for age distribution, the highest age group of investors (40.2%) were between 25 and 34 years of age followed by people aged between 35 and 44 years (26.4%). This indicates that the sample is predominantly from among those who are economically active investors, and hence, likely to have experience in investment and to make investment decisions. The younger age group of below 25 was 20.1% of the respondents, which shows growing interest among the younger investors in the investment field. The education profile shows that majority of the respondents had higher education. About 69% of participants held bachelor and/or master's degrees, indicating that participants were educationally equipped to sufficiently process financial data and constructively assess financial information relevant to investment. When asked about monthly income, most of the respondents ($1,000 - $2,500 monthly; 38.5%) and few respondents ($< $1,000 monthly; 25.5%). The employment distribution shows that the employment group represented the largest group, then business owners and public-sector employee. Finally, the demographic characteristics provide a satisfactory overall picture that the respondents form a proper population of individual investors active enough to assess financial reporting information and make investment decisions.

Normality Analysis

The collected data were subjected to normality testing to indicate if data are approximately normally distributed. Skewness and kurtosis values were analyzed due to the assumption of normal distribution with regression.

Table 2: Normality Assessment

Construct	Mean	Standard Deviation	Skewness	Kurtosis
Financial Reporting Quality	3.89	0.71	-0.421	0.563
Financial Literacy	3.76	0.68	-0.318	0.472
Investment Decision Effectiveness	3.94	0.73	-0.387	0.519

The results show that there is no unimodal or plekokurtic distributions in all constructs and there are no outliers. The range of values -2/+2 is viewed as acceptable for using the normal distribution assessment. Thus, the results showed that the data was normal and fit for statistical parametric analysis such as regression and moderation analysis.

Reliability and Validity Assessment

Reliability and validity tests were used to ensure that the measurement instruments used are able to represent the constructs being measured. To measure internal consistency, Cronbach's Alpha and composite reliability were used, and Average Variance Extracted (AVE) was used to measure convergent validity.

Table 3: Reliability and Validity Assessment

Construct	Cronbach's Alpha	Composite Reliability	AVE
Financial Reporting Quality	0.884	0.901	0.603
Financial Literacy	0.861	0.889	0.579
Investment Decision Effectiveness	0.892	0.914	0.625

Results showed good internal consistency for all the constructs. The overall internal consistency of the questionnaire was good as the Cronbach's alpha is above 0.70. Likewise, composite reliability has also remained above the acceptable threshold level, thus assuring measurement reliability. The AVE of every construct was > 0.50, which indicated adequate convergent validity. These outcomes reflect data that revealed items measuring each construct are able to sufficiently represent each construct and that the data is adequate for testing the hypotheses.

Regression Analysis

The direct effects of financial reporting quality and financial literacy to investment decision effectiveness have been investigated in the analyses employing the regression.

Table 4: Regression Model Summary

Model	R	R^2	Adjusted R^2	F-value	Significance
1	0.684	0.468	0.463	103.21	<0.001

The regression model accounts for 46.8% of the total variance of the effectiveness of investment decisions. The p value of the F is statistically significant, implying that the overall regression model is valid, together financial reporting quality and financial literacy explain the differences in effectiveness of investment decisions.

Table 5: Regression Coefficients

Predictor	Beta (β)	t-value	Significance
Financial Reporting Quality	0.421	7.84	<0.001
Financial Literacy	0.356	6.42	<0.001

Based on the regression results, it can be seen that the financial reporting quality has a positive effect on the effectiveness of investment decisions with a significant coefficient of 0.421 at significance level of 0.001. This shows that an effective investment decision is favored by an investor when he believes the financial statements of a company are more reliable, transparent and informative. Financial literacy is also greatly and positively related to the effectiveness of investment decision ($\beta = 0.356$, $p < 0.001$). This means that investors (who are financially savvy) had higher decision making capability as they were able to analyse information, assess risk and choose appropriate investment options.

Moderation Analysis

Moderation analysis was used to see if the financial education systematizes the relationship between financial reporting quality and investor's decision efficiency.

Table 6: Moderation Effect of Financial Literacy

Variable	Beta (β)	t-value	Significance
Financial Reporting Quality	0.392	7.21	<0.001
Financial Literacy	0.301	5.86	<0.001
FRQ × Financial Literacy Interaction	0.214	4.37	<0.001

Results indicate that the influence of financial reporting quality on the relationship with financial literacy is significant ($\beta = 0.214$, $p < 0.001$). This is evidence to suggest that with financial literacy, there is a net positive effect on the relationship between financial reporting quality and effectiveness of investment decisions. The results suggest that the use of high quality financial reporting will provide higher gains to more financially literate investors. Knowledgeable investors will be able to better understand the accounting information and use the financial report as an effective tool for making investment decisions.

Hypothesis Testing Results

Table 7: Summary of Hypothesis Testing

Hypothesis	Relationship	Result	Decision
H1	Financial Reporting Quality → Investment Decision Effectiveness	Significant positive relationship	Supported
H2	Financial Literacy → Investment Decision Effectiveness	Significant positive relationship	Supported
H3	Financial Literacy moderates FRQ → IDE relationship	Significant moderation effect	Supported

Hypothesis testing results show that all of the relationships proposed are statistically supported. Financial reporting quality directly leads to improving investment decision effectiveness and financial literacy makes investment decision more effective; second, financial literacy has a positive impact on the usefulness of Financial Reporting information.

Discussion of Findings

The research results support the proposed research model and suggest that information quality and investor capability are two key factors that influence the effectiveness of investment decisions (Roychowdhury et al., 2019; Shakespeare, 2020; Al-Hattami, 2022). The strong correlation between Financial Reporting Quality on financial decision-making supports the fact that credible and transparent financial statements are used by investors to screen the investment opportunities (Assad et al., 2023; Khan et al., 2024; Shahzad et al., 2019). A good report reduces uncertainty, enhances comprehension of the business, and facilitates investors deciding whether or not the value of a company is worth investing in and what risks are associated with that investment (Shakespeare, 2020; Biehl et al., 2023; Houcine, 2017). The results have also shown that financial literacy is a crucial factor in effective investment (Adil et al., 2021; Sivaramakrishnan et al., 2017; Suresh, 2024). Fincaps are able to analyse financial statements, interpret accounting information and apply financial concepts to actual decision making situations to a higher degree as they have more financial knowledge (Suresh, 2024). This provides evidence that decision-making processes related to investment are not only information-intensive but also require investors to be able to process and effectively use the information (Al-Hattami 2022). Notably, the moderation outcomes offer more significant contributions in two ways, firstly, financial literacy amplifies the financial reporting quality value (Hoque et al., 2026; Adil et al., 2021; Ahmad & Shah, 2020). This indicates that financial information is not a source of adequate investments or interventions. (Krische, 2019). Rather, investors need proper knowledge and analytical skills to translate financial disclosure data into action (Adil et al., 2021; Hoque et al., 2026). Hence, financial literacy serves as a channel for reporting quality to generate better investment outcomes (Ahmad&Shah, 2020 & Hoque et al., 2026).

Theoretically, these results confirm the Decision Usefulness Theory which has found that Decision Usefulness depends on information characteristics and information user capabilities (Al-Hattami, 2022). Although good standardized disclosures can help to some extent in the final decision, the quality of disclosures and investor financial literacy is what affects the outcomes of decisions (Roychowdhury et al., 2019; Shakespeare, 2020). In practical terms, the results underscore the need for better transparency in corporate reporting practices, along with the enhanced financial education of investors (Khan et al., 2024; Assad et al., 2023; Maheshwari et al., 2024). There is a need to not only strengthen the rules governing disclosure but also create programs to improve the financial literacy among investors so they can effectively understand financial information (Adil et al., 2021; Raut, 2020; Maheshwari et al., 2024). In conclusion, this study shows that good investment decisions are a result of good financial reporting and financially competent investors (Shahzad et al., 2019; Khan et al., 2024; Hoque et al., 2026).

Conclusion and Recommendations

Conclusion

This study investigated how financial reporting quality impacts the effectiveness of investment decisions and explored the moderating role of the investor's financial literacy by studying individual investors in the stock market. The present study was prompted by both rise in significance of reliable financial information and involvement of individual investors in capital markets. Financial statements are a major source of information on which an investment decision is made, while the usefulness of such information depends on the information that is provided to them by firms and the ability of an investor to interpret and use the information. Thus, both of the approaches of accounting information quality and investor capability have been included into this piece of research so as to give a more complete account of investment decision. The results show that the high-quality financial reporting has significant positive influences on the effectiveness of investment decisions. Financial reports transparent, reliable, relevant and understandable, will enhance the ability of investors to make informed and rational investment decisions. Quality reporting decreases the information uncertainty, enhances an investor's assessment of corporate performance and fosters better assessment of risks and expected returns. The results confirm that regulations of corporate disclosure are crucial to the efficient making of investment decisions and increase investor confidence.

The study also statistically demonstrates the significance of the impact of financial literacy towards the effectiveness of the investment decision of the investors. The better grasp of analytical ability that financially literate investors have makes them more capable of evaluating financial information more effectively, identifying investment opportunities, analysing the risk and making decisions that are in line with their financial goals. The study indicates that mere availability of information is not enough to make optimal use of information for decision making and that investors need sufficient knowledge and skills to make optimal use of the information. One of the key findings of this study is that financial literacy is indeed playing a moderating role. The results show that financial literacy enhances the relationship between financial reporting quality and the effectiveness of investment decision. This indicates that the higher the financial knowledge of investors, the greater the amount of value in the decision value of high-quality financial reporting. Disclosure of financial information's accuracy and transparency may not help investors fully when the investors lack the capability to understand complicated accounting information of the companies while soliciting for investment. So good investment decision making is a result of both quality financial information and the investors' financial information processing ability.

The net effect of this study is to make it known that the quality of information and the characteristics of investors cannot be taken alone to determine the effectiveness of investment, but the combination of the two. The results hold implications for researchers in the accounting field as well as the corporate management, regulators, and financial educators: reporting transparency should be increased and some enhancement of investor financial competence is required.

Theoretical Implications

This study contributes in various theoretical aspects to the accounting and the behavioural finance literature. First, it adds to the beds of Decision Usefulness Theory, showing that usefulness of accounting information is a result of the nature of users as well as the nature of financial reports. Although traditional discussion of this theory focused on information usefulness in decision making, this research emphasized on the conditionality of information usefulness to the ability for investors to understand and apply financial information. Second, this study contributes to the financial reporting literature by redirecting the focus of the research from company level outcomes to the investors' decision processes. Studies related to the quality of financial reporting have been mostly focused on market-based measures, earning-based measures, and organisational outcomes. Adopting the perspective of individual investors, this study offers some further insight on the perception and use of financial information at the decision-making level. Third, the study contributes to the literature on financial literacy by recognizing it as a boundary condition, and not an outright predictor of investment behaviour. The moderating effect shows that the financial literacy level limits the leverage exercised by investors to value from good quality of financial reporting. This offers a more comprehensive explanation of investment decision effectiveness with a blend of the information-based and capability-based viewpoints.

Practical Implications

Results provide valuable implications for several stakeholders. The findings indicate to the corporate management level and reporting authorities that transparent, accurate, and comprehensible financial reports are important. Companies need to work on both, regulatory compliance and the accessibility and transparency of financial disclosures so that end investors could base their decisions on these disclosures in an informed manner. The results indicate that while greater effort should be made to improve the quality of reporting by the financial regulators, there is still need to educate investors as well. Regulatory authorities must facilitate easy financial communication, educational programme for investors, and an awareness of the interpretation of financial statements. For financial institutions, brokerage houses and any other platform serving as a way to invest money, these statistics make an overwhelming case for promoting financial literacy to investors. Investor education can be offered through training programmes, educational materials and analytical tools that can help investors handle corporate disclosures and help them make investment decisions.

Recommendations

Following the results, some recommendations are recommended. First, there is a need to keep on improving the quality of financial reporting, ensuring transparency, keeping it as simple as possible and giving relevant information that helps investors to assess the information communicated. Second, there is a need for structured financial literacy programmes to be put in place by financial regulators and educational institutions, aimed at individual investors, especially at those new to the market with less experience investing in the market. Thirdly, the educational components, including tools to guide investors in the interpretation of financial statements and investment awareness programmes, should be integrated into brokerage firms' or investment platforms. Last but not least, investors need to actively improve their understanding of finance and analytical skills to make the most out of financial information.

Limitations and Future Research Directions

This study is limited in a number of ways. First, because the study adopts the cross-sectional survey method, it is possible only to draw out the investors' perception from a time given in this method and thus only partially to conclude the changes in the investment behaviors happening over the long term. Second, due to the fact that the item is self-reported, there might be response bias because of different views on investment skills than actual investment skills. Third, the sample does not include investors in other financial environments or institutional investors and there is a lack of generalisation of the finding. Future limitations of this study include the lack of longitudinal studies, which may be able to better explain how the behaviour of investors has changed over time. Future research could involve the addition of any experimentation or objective indicators of financial literacy/performance with investments in addition to perception-based assessment. Furthermore, future studies may focus on other variables as moderating factors, such as investors' investment experience, risk attitude, level of technological sense or behavioural biases, in order to know more about the way investors convert financial information into effective investing actions.

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