CHAPTER I

INTRODUCTION

1.1 Background

The emergence of E*Trade as the first online trading platform has facilitated access to securities trading for individuals who previously lacked access to securities trading to invest (Cotter, 2020). This development was supported by the introduction of high-speed computers and affordable internet connections, which contributed to the growing popularity of online trading platforms during that period (Aharon & Qadan, 2020). These platforms enable buyers and sellers to conduct transactions virtually anywhere with internet access. As a result of this new convenience, the number of people investing online has surged significantly (Cotter, 2020).
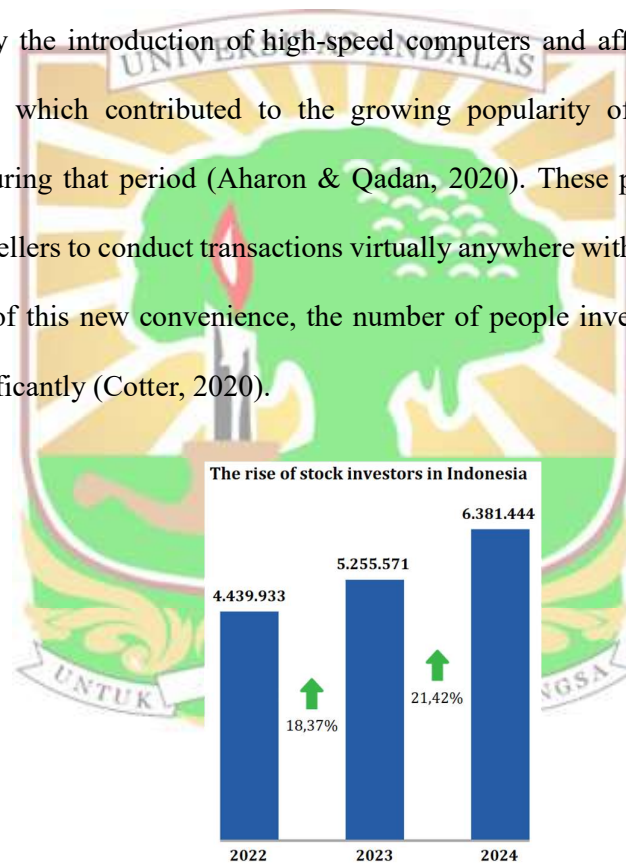

Figure 1.1 The Rise of Stock Investors in Indonesia

(Source: KSEI, 2024)

In Indonesia, there has been a notable and continuous rise in individuals engaging in online investments. Data from the Indonesian Central Securities Depository (KSEI), which serves as a Depository and Settlement Institution (LPP)

in the Indonesian Capital Market, reveals that the number of investors in the Capital Market, Mutual Funds, Shares, Other Securities, and Government Securities has significantly increased from 2022 to 2024. Specifically, investment in stocks rose by 18.37% from 2022 to 2023, reaching a total of 5,255,571 investors. Furthermore, from 2023 to 2024, this figure grew by 21.42%, amounting to 6,381,444 investors.

An increase in the number of individuals with easy access to online investing will likely result in a rise in the number of inexperienced online investors with relatively low financial literacy (Cotter, 2020). Non-professional investors often lack the necessary knowledge, skills, and experience to conduct comprehensive economic research before making investment decisions (Kuzminsky & Ziemtsov, 2024). As a result, they may make financial decision-making with insufficient information or misunderstand the information they receive (Cotter, 2020). Prior research shows that non-professional investors often miss relevant information, even when the information has been specifically designed for them and is available for free (Cascino et al., 2014). Although financial statements play a vital role in equity markets for regulators, practitioners, and researchers, it remains unclear how non-professional investors actually make their investment decisions. This group is often regarded as the least informed users of financial statements (Lerman, 2020). Research consistently finds that non-professional investors struggle to identify the available financial statement information when making investment decisions. Non-professional investors prefer filtered information provided by intermediaries, such as financial advisors and the media, rather than unfiltered data (Cascino et al., 2014). In fact, investors

can use financial statements to gather information that they can use to make a variety of decisions, including whether or not to invest (Blessing & Onoja, 2015).

Although financial statements are crucial for investors, the complexity of the presentation of data may pose comprehension challenges, potentially leading to ill-informed decision-making (Uddin et al., 2024). Typically, intricate tables are utilized to present accounting data (Febrianto & Rafdinal, 2006). Financial statement items that appear too complicated may impede non-professional investors' judgment and decision-making when confronted with financial statements. Cognitive load theory, developed by John Sweller in the 1980s, indicates that complex information significantly burdens users' limited working memory. Therefore, presenting such information in a more accessible format can effectively reduce cognitive load and enhance understanding and processing abilities (Ragland & Reck, 2016). The decision-making process for each individual is highly personal and relies on their capacity to interpret the data and information available to them. Therefore, how information is presented can influence individual decision-making behaviors (Widyatama & Narsa, 2023).

Identifying the most efficient method for presenting financial statement information to investors, creditors, auditors, and managers has been a long-standing challenge in accounting (Foster, 1986). The presentation of financial statement information extends beyond mere numerical figures. Data visualization serves as a vital tool that aids in simplifying and presenting complex financial data, making it easier for various data users, including investors, to comprehend. As noted by Eberhard (2023), "visualization is defined as a visual representation of information or concepts designed to effectively communicate content or

messages and enhance audience understanding." In the context of investment decisions, data visualization plays a crucial role in making intricate financial information more comprehensible. This is crucial for helping investors and other stakeholders to better understand these figures and evaluate their implications. Financial data are intricate and include various complex variables and relationships, making it challenging for investors to interpret. However, by transforming this intricate data into visual formats, it becomes significantly easier to interpret and comprehend (Perdana et al., 2018). For retail investors and individuals who may lack familiarity with financial statements, data visualization provides a compelling and accessible narrative by turning data into visual forms such as charts, graphs, and diagrams. This approach allows them to extract actionable insights and make informed decisions. Thus, while financial metrics such as net income, earnings per share (EPS), and return on equity (ROE) are essential for analysts and companies engaged in various strategic decision-making processes, visualization is equally important for those without a finance background because it enables them to quickly analyze multiple years of data and gain a clear visual understanding of trends (Chy & Buadi, 2023).

The importance of utilizing visualization methods has increased in the fields of accounting and finance. For instance, the Securities and Exchange Commission (SEC) promotes the use of graphical representations of information to improve users' comprehension of financial disclosures. In line with this requirement, companies have markedly expanded their use of qualitative and quantitative infographics in 10-K filings in recent years (Christensen et al., 2024). Data visualization, often referred to as infographics, has emerged as a fundamental

component for news organizations on a global scale (de Haan et al., 2018). Infographics, which combine the two concepts inherent in their name, serve as visual representations of information. They present topics or issues to audiences in an attractive and easy-to-follow manner by blending words and visuals. These visuals quickly present complex quantitative and/or qualitative data to the audience. Typically, infographics include various components such as data displays, lists, and graphs to effectively communicate a specific message aimed at informing the target audience about a particular subject (Toth, 2013). International research has shown that the use of graphics in annual reports is widespread, with over eighty percent of companies employing some form of visual representation (Volkoy & Laing, 2012). Therefore, by incorporating visual elements like charts, graphs, and infographics, data visualization can transform raw data into easily understandable and visually engaging formats for audiences, especially investors.

Research conducted by Cohen et al. (2022) explored the use of infographics to present accounting information from public sector financial statements, assessing public understanding across three European countries. Febrianto & Rafdinal (2006) also investigated alternative formats for presenting accounting information using cartoon images. This study found that respondents were more efficient in classifying accounting information when using Chernoff's schematic faces (cartoons) than traditional accounting formats. Therefore, this study aims to explore alternatives for presenting accounting information in infographics using private-sector financial statements to evaluate the understanding of non-professional investors in Indonesia.

1.2   Problem Formulation

Based on the description of the background above, the problem formulation in this study is as follows:

1. Do non-professional investors prefer the presentation of accounting information in infographic format rather than traditional format?

2. Does the presentation of accounting information in infographic format improve non-professional investors' subjective understanding of the information in the financial statements?

3. Does the presentation of accounting information in infographic format improve non-professional investors' objective understanding of the information in the financial statements?

1.3   Research Objectives

Based on the formulation of the problem described above, the objectives to be achieved in this study are:

1. To investigate whether non-professional investors prefer the presentation of accounting information in infographic format compared to the traditional format.

2. To investigate whether the presentation of accounting information in infographic format is able to improve the subjective understanding of non-professional investors compared to the traditional format.
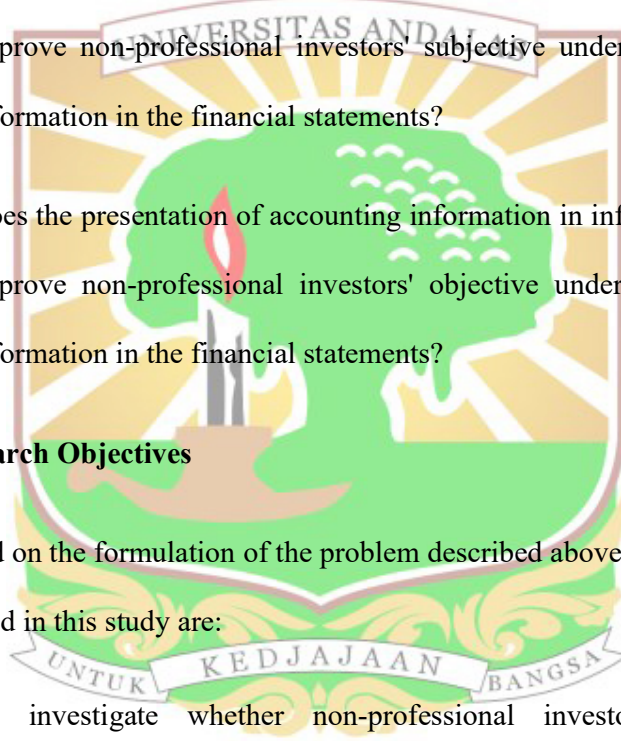
3. To investigate whether the presentation of accounting information in infographic format is able to improve the objective understanding of non-professional investors compared to the traditional format.

1.4 Research Significance

This research is expected to provide benefits including:

1. Offer additional empirical evidence on comparing traditional and infographic formats in presenting accounting information.

2. Provide recommendations for preparers and users of accounting information on the most effective formats for presenting information that is easier to comprehend for diverse user groups.

1.5 Writing Systematics

This study uses writing systematics consisting of five chapters, each of which consists of:

CHAPTER I INTRODUCTION

This chapter is the opening chapter that outlines the background, problem formulation, research objectives, research benefits, and writing systematics that relevant with the title of research.

CHAPTER II LITERATURE REVIEW

This chapter describes some of the basic theories and concepts related to this study. This chapter will also discuss previous research, the framework of thought and the development of hypotheses that will be studied by researchers.

CHAPTER III RESEARCH METHODS

This chapter will explain the research methods used, the variables studied, data collection techniques, population and research samples, research instruments, and data analysis methods.

CHAPTER IV RESULTS AND DISCUSSION

This chapter will explain the results of hypothesis testing and an explanation of the research results obtained.

CHAPTER V CONCLUSION

This chapter will contain conclusions, research limitations, and suggestions for further research to overcome existing limitations.