Importance of Several Components of Annual Report to the Investors: A Study on the Northern Part of Bangladesh

Brazendra Nath Roy[1*], Purbasha Dash[2]

[1,2]*Pundra University of Science & Technology, Bogura, Bangladesh*

Corresponding author email: noyon.roy99@gmail.com

Abstract

This study examines the perceived usefulness of several components of the annual reports in the decision-making process of investors in making investment decisions. Corporations provided their financial information i.e financial result, financial conditions, and distributions to shareholders etc. to the users through corporate annual report. The main objective of the study is to measure the level importance of the several parts of annual report in providing useful information to the investors. A well-organized questionnaire was used to collect data from the respondents. Descriptive statistics, reliability tests, correlation, regression, etc., were applied to detect the result of the study. The development of the survey indicates that the annual report provides the required information to the investors for their rational investment decision, but some components of the annual report are not helpful at all to the investors. Balance Sheet, Statement of Cash Flow, Notes to the Financial Statements, Auditors Report, Five Years Financial Highlights, and Income statement were providing more valuable information regarding investment. The findings of the study will encourage preparers to provide reliable information as well as encourage users in using yearly report of corporations.

Keywords: Bangladesh, Annual report, decision making, importance, investor

1. Introduction

Annual reports serve as the principal reservoirs of information for stakeholders. Yearly report is considered as one of most important sources of information both qualitative and quantitative which helps investors in taking fruitful investment decisions regarding corporations. Stainbank and Peebles (2006) find that users thought annual reports the second most important source of information for their investment decision in South Africa. Rahman (2001) also found in his study that yearly report is ranked second most important source of information for accountants in Malaysia. Several statements included in the annual report assist users in their investment decisions by highlighting specific information about the corporation. Statement of financial position, income statement, statement of owner's equity, statement of cash flows, five years financial highlights etc., provide specific quantitative information to the investors. On the other hand, notes to the financial statements, directors' reports, statements of corporate governance, statement of internal control, auditor's reports, etc., provide users different current and prospective qualitative information about a corporation. A study was conducted by Ho and Wong (2001) entitled "A study of corporate disclosure practice and effectiveness in Hong Kong" and they found that analysts in Hong Kong mostly read income statements, balance sheets, and statements of cash flow for their desired information. Mirshekary and Saudagaran (2005) stated in their study that in Iran, profit and loss account, auditor's report, and balance sheet were accepted as the most important sources of information by the users. Al-Razeen and Karbhari (2007) also find that the above three sections, i.e., the income statement, the balance sheet, and the auditors' report mentioned by Mirshekary and Saudagaran (2005) are taken as a valuable information sources by five user groups in Saudi.

Users or investors may collect necessary information about their investment from different sources, i.e., brokerage houses, family, corporate annual reports, rumors, etc. Among the several sources of information, this study analyzes only the importance of different parts of yearly report in providing necessary information regarding investment. The main objective of the study is to measure the degree of preference given to each parts of annual report by the investors in extracting their required investment information. This study helps to examine how the information provided through several features is used and considered while making rational investment decisions.

2. Literature Review

As per the study by Biswas and Bala (2016) based in Bangladesh, it is found that one-third of investors utilize the annual report. The study also quoted that among various components of annual reports, balance sheets and income statements have the main focus of investors. According to Rowbottom & Lymer (2007), users considered the annual reports as a significant source of information for rational investment decisions. The Annual report discloses several inter-related significant information about a corporation and helps users in making a rational investment decision. Kabir, Babar & Haque (2012) conducted a study entitled "Measuring investors' perception towards the usefulness of annual report: An empirical evidence from Bangladesh" and they applied different statistical tools to find out the impact of the components of annual reports on users' decisions. They found that the components of annual reports significantly affect the judgment and decision of the investors in making their investment decisions. Naser & Nuseibeh (2003) conducted a study on the usefulness of information contained in annual reports and they found that investors can assess and compare the performance of a company with other companies. They claimed in their findings that investors consider annual reports as a valuable source of information for making sound investment decisions. A similar investigation is done by Anwar & Mannan (2012) on the use of annual reports on investment and finance decisions, where they analyzed and found that users, i.e., financial analysts, creditors, and investors, rely heavily on the information disclosed in the different statements of the annual report. Information disclosed through several components of the annual report not only helps in making prompt investment decisions but also helps users make financing decisions. Isam & Nawaf (2018) analyzed the effect of disclosures of financial statements in investment decisions and found that trustworthy information can be found from annual financial statements, and Investors use the information provided through annual financial statements in making their investment decisions. An empirical study carried out by Kitindi, Magembe & Sethibe (2007) on lending decisions and found that statements contained in the annual reports were the key sources of information and helps lenders significantly in making their lending decision. Gassen and Schwedler (2010) analyzed the use of annual report by professional investors, and they noticed that investors believe and consider that annual reports as their more trustworthy source of information than any other sources of information like a personal contracts, newspapers, etc. Similarly, Alattar & Al-Khater (2008) surveyed a study on the usefulness of annual reports and showed the annual report granted as a useful source of information to the users for making effective investment decisions. They claimed that users mostly prefer the information contained the balance sheets, income statements, cash flow statement, auditor's report, and notes to the statements of the annual report. Al-Razeen and Karbhari (2007) conducted their research in five user groups in Saudi and ranked the statement according to the choice of the user groups. They noticed that balance sheet, income statement and auditor's reports ranked as the most valuable and reliable sources of information to the five user groups in Saudi. Mirshekary and Saudagaran (2005) also claimed in their study that profit & loss accounts, balance sheets, and auditor's reports are the mostly used sources of information for users in Iran. A different result was found in the study conducted in Hong Kong by Chen and Hsu (2005). They discovered that investors prefer alternative sources of information like historical information, company news, and advice rather than the information supplied by the annual report. In a recent study in Nigeria, Adeyemo, Isiavwe, Adetiloye & Eriabie (2017) analyzed the relationship between shareholder's decision-making and information provided through financial statements. They concluded that information contained in the financial statement heavily affects the investment decision of the shareholders in Nigeria. Dawd, Burton, Dunne & Almujamed (2018) surveyed a study on the users and preparers and tried to understand their perception of the reporting and disclosure practices of the company in Kuwait. They conducted their study using descriptive analysis and concluded that users and preparers preferred the information contained in the annual report while making important decisions about a corporation. They ranked significantly income statement and balance sheet followed by the auditor's report as reliable sources of information for their decision-making. Vestine, Kule, and Mbabazize (2016) surveyed on the influence over the investment decision of financial statement analysis. They ranked first the income statement and the information contained in the income statement significantly affects the investors in making their investment decisions. According to their findings, the information contained in the cash flow statement ranked as second, and the information contained in the balance sheet ranked as third to the users. They argued that investment decisions taken by the investors mostly rely on the result of financial statement analysis. Jagongo, & Mutswenje, (2014) analyzed the factors affecting the decision of individual investors. They used a well-structured questionnaire to understand the perception of individual investors about the factors affecting their judgment while making rational investment decisions. They concluded after considering several statistical analyses that several factors influence the investment decision of individual investors. Among them, expected dividends, price per share, past performance of the company's shares, the reputation of the company, firm position in the industry, and expected earnings of the corporation significantly affect the judgment and decision regarding investment decision of an individual investor.

3. Material and Method

The main objective of the study is to measure the degree of importance of each components of annual report to the investors in extracting required information regarding their investment. The other objectives of the study are the following:

i.   To determine the extent of importance of the components of the annual report.

ii.   To measure the extent of usefulness of the information included in several components of the annual report.

3.1. Research Hypothesis

H0: Every component of annual report influences the decisions of investors.
H1: Every component of annual report does not influence the decisions of investors.

3.2. Methodology of the Study

This study aims to measure the extent of the importance of different components of the annual reports in the investment decisions of investors. Due to the limitation of time and money, this study covers only northern part of Bangladesh. In collecting data from the respondents, a convenience sampling technique was followed. it was used because it is less costly and time consuming. The size of the sample was not determined previously. It was confirmed after receiving responses from the respondents. Only 75 respondents provided their answers to our investigation.

This study is conducted purely based on primary data. Data is collected considering the objectives of the study. The study tries to discover the preference given to each components of yearly report by the investors while collecting necessary information regarding their investment. For collecting data from respondents, a well-structured questionnaire is prepared and distributed to the investors using email. The questionnaire divided into two parts, one for demographic information of the respondents and the second was for collecting information about several components of the annual report and their influence on several investment decisions of the investors. The second part of the questionnaire was designed with a 5-point Likert scale. SPSS version 26 was used to analyze data collected through the questionnaire. Descriptive statistics was used in the study to find out the preference of using the information of each parts of yearly report. Correlation, ANOVA and Chi-Square were used to test the hypothesis of the study. In analyzing data, rational investment decision is considered as the dependent variable, and information contained in the components of the annual report is considered as the independent variable.

4. Result and Discussion

4.1 Reliability of Data

The reliability of the data of the study is checked using Cronbach's alpha. Cronbach's alpha is a statistical instrument that takes with a value between 0, and 1. The value 1 of Cronbach's alpha indicates perfect correlation between the parts and 0 indicates no correlation between the instrument parts. A value of 0.70 of Cronbach's alpha is required for further analysis, but a value of 0.80 & above will provide more accurate result of a study (Bryman & Cramer, 1995; Huck & Cormier, 1996). Here, Cronbach's alpha test is conducted only to get the overall test result of the data. The value of Cronbach's alpha dictates that the data collected for this study is considered reliable for further analysis. The result of the reliability test is 0.968, and it indicates that the data can be analyzed statistically to find out the result of this study. The following table shows the reliability test value of this study:

Table 1: Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
0.968	0.971	75

4.2 Descriptive Statistics

Table 2: Descriptive Statistics

	N	Mean	Std. Deviation	Variance
Income Statement	75	3.93	0.799	0.638
Balance Sheet	75	4.40	0.632	0.400
Statement of Cash Flow	75	4.00	0.756	0.571
Notes to the Financial Statements	75	4.07	0.799	0.638
Statement of Corporate Governance	75	3.27	0.704	0.495
Statement of Internal Control	75	3.27	0.594	0.352
Directors Report	75	3.27	0.594	0.352
Auditors Report	75	4.60	0.632	0.400
Five Years Financial Highlights	75	4.47	0.640	0.410
Chairman's Statements	75	3.33	0.488	0.238
Directors and Senior Management Profile	75	3.00	0.655	0.429
Operations Review	75	3.80	0.775	0.600
Annual Report (Whole)	75	4.20	0.561	0.314
Valid N (list wise)	75			

The objective of the study is to find out the impact of several components of the annual reports on an investor's decision-making process. Data about the usefulness of each section of the yearly report is collected through the questionnaire, and the above table depicts the descriptive test result of each section of the report. It is observed from the above table that the Balance Sheet, Statement of Cash Flow, Notes to the Financial Statements, Auditors Report, Five Years Financial Highlights, and Income statement were considered more valuable components to the investors while making their investment decisions. Regarding the components, i.e, Statement of Corporate Governance, Statement of Internal Control, Directors Report, Chairman's Statements, Directors and Senior Management Profile and Operations Review, investors were in neutral position. It indicates these components of the annual report were not providing useful information while taking investment decisions. But if we consider the overall mean value of the annual report, we may conclude that investors preferred the yearly report as a valuable source of information for their fruitful investment decision.

4.3 Correlation Analysis

Table 3: Correlation Analysis

		Income Statement	Balance Sheet	Statement Of Cash Flow	Notes to the Financial Statements	Statement of Corporate Governance	Statement of Internal Control	Directors Report
Rational investment decision	Pearson Correlation	0.779**	0.792**	0.710**	0.776**	0.455	0.364	0.484
	Sig. (2-tailed)	0.004	0.000	0.003	0.001	0.079	0.059	0.078
	N	75	75	75	75	75	75	75

Table 3 (continued): Correlation Analysis

		Auditors Report	Five Years Financial Highlights	Chairman's Statements	Directors and Senior Management profile Profile	Operations Review	Annual Report (Whole)	Rational Investment decision
Rational investment decision	Pearson Correlation	0.781**	0.733*	0.455	0.383	0.478	0.766**	1
	Sig. (2-tailed)	0.009	0.011	0.079	0.057	0.051	0.001	
	N	75	75	75	75	75	75	75

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).

If we carefully observe the above table, it is clear that there is a positive correlation between the independent variables and the independent variable. The correlation coefficient between the independent variable i.e Annual Report (whole) and the dependent variable i.e rational investment decision is 0.766, which indicates that investment decisions were mainly affected by the information contained in the annual report. If we observed the correlation coefficient of every component (independent variables) of the annual report and rational investment decision (dependent variable), we may conclude that information contained in each component was not strongly correlated with our independent variable. Statement of Corporate Governance, Statement of Internal Control, Directors Report, Chairman's Statements, Directors and Senior Management profile & Operations Review of the annual report were not strongly correlated with our independent variables. So, we may conclude that our alternative hypothesis is accepted and the null hypothesis is rejected. Yearly report of corporations influences the investment decision of the investors.

4.4 Regression Analysis

Table 4: Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df 2	Sig. F Change	
1	0.972ª	0.944	0.608	0.500	0.944	2.811	12	2	0.292	2.000

a. Predictors: (Constant), Annual Report (whole), Directors and Senior Management Profile, Auditors Report, Income Statement, Five Years Financial Highlights, Balance Sheet, Chairman's Statements, Note to the Financial Statements, Statement of Corporate Governance, Operations Review, Statement of Cash Flow, Directors Report
b. Dependent Variable: Rational investment decision

Regression analysis shows that the value of R is 0.972, which reveals that there is a strong positive correlation between the independent variables and the dependent variable in the study. We may conclude that the value of dependent variable, i.e., rational investment decision, is 97.2% is affected by the effect of independent variables. Besides that, in the previous table, the correlation analysis depicts the individual correlation of every independent variable with the dependent variable. We noticed that there is strong positive correlation between some independent variables with dependent variables. In this analysis, the R square value 0.944 expresses the model's goodness of fit. So, the null is rejected, and alternative hypothesis is accepted with a level of significance 0.05. Investors rational investment decision is mainly affected by the information provided in the components of the annual report.

4.5 ANOVA Analysis

Table 5: ANOVA

		Sum of Squares	df	Mean Square	F	Sig
Between People		63.952	14	4.568		
	Between Items	52.500	13	4.038	27.513	0.000
Within People	Residual	26.714	182	0.147		
	Total	79.214	195	0.406		
Total		143.167	209	0.685		

Grand Mean = 3.83

ANOVA test result shows that F value is 27.513 with 0.0000 significant values, which expresses that the model in this study is good enough in predicting independent variables. Thus, our null hypothesis is rejected, and the alternative hypothesis is accepted, considering the ANOVA test result. So, we are in a position where the information provided through the several components of the annual report is helpful to them in making a rational investment decisions.

5. Conclussion

This study is about the perceived importance of the components of the annual report to the investors in making rational investment decisions. The main objective of the study is to discover the preferences given by the investors in extracting financial information from the parts of yearly report of an organization. There are so many sources of information for making investment decisions. Among all the bases, the annual report is regarded as the reliable sources of information. The study aims to determine and measure the degree of acceptance of yearly reports to investors and to measure the extent to which components of annual reports affect the judgment and decision of investment. A well-designed questionnaire was used to collect data from the respondents. To get reliable data, it was collected through the help of a brokerage house. SPSS version 26 was used for the analysis of data. Distinctive statistical test i.e descriptive analysis, reliability test, correlation analysis, regression analysis, and ANOVA test were applied to analyze data to get the result of the research. The development of the study is that the annual report provides helpful information through its several components to the investors. Investors make rational investment decisions considering the information provided through the elements of the annual report. From the analysis, it is clear that information revealed through the several elements of yearly report positively impact the investor's rational decision-making. Among all the features of annual reports, income statements, balance sheets, statements of cash flow, notes to the financial statements, and auditor's reports have a strong positive correlation with rational investment decisions. So, we may conclude that the overall annual report and its significant components affect the investor's decision-making. The findings of the study will provoke prepares of annual report in providing faithful information through annual report. It also influences the users in using the information while making their investment decision. Further study can be initiated on the quality of information users expect from annual report of an organization.

6. Limitation of the Study

We think that research findings using primary data reflect true picture about a phenomenon. In this study, data was collected from only 75 respondents. If the data is collected from a huge number of respondents, it will provide more accurate result about the scenario. Besides that, this study comprises only in the northern part of Bangladesh which may affect the adequacy of the study. But we tried our best to maintain accuracy of the data and analysis of the study. Further research can be possible in this regard, such as comparative analysis among different sources of information, frequency of reading annual reports etc.

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