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Importance of Annual Report to the Shareholders: Empirical Evidence from Bangladesh

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Abstract

Shareholders solely depend on annual reports to make investment, credit and other decisions. Investors expect that information should be reliable, relevant, comparable, consistent and thus easy to use for decision making. But whether the importance of annual reports to all shareholders is equally significant is a question of research. Thus, this research study tries to find out the importance of reading annual reports to the investors. A questionnaire survey is conducted on investors considering thirty one general shareholders and six brokers. This research based survey finds that most of the shareholders have no knowledge about accounting or finance and they have little knowledge about capital markets due to lack of training. This study also finds that general shareholders read an annual report at least moderately except value added statement, chairman's review, director's report and rumor. This study recommends human resource should be developed through adequate training, and annual reports should provide transparent and quality information which will ultimately increase the confidence of investors.

Keywords: Annual Report, Value Added Statement, Environmental Report.

JEL Classification Codes: M40, M41, M42, M48.

1. Introduction

The role of accounting is to provide economic and financial information for interested users to make their decisions. Investors expect that information should be reliable, relevant, comparable, consistent, and thus easy to use for decision making. Investors require different types of information that helps them to choose among the available alternatives. One of the most important sources that provide such information to investors is corporate financial statement reports. Individual investors perceived corporate financial statements as the most important source of information for their investment decisions (Al-Ajmi, 2009).

The objective of this study is to find out what extent investors use annual reports in making their investment decisions. This research study also tries to find out what

kind of information investors expect from the company's annual report in making an investment decision. In this study, thirty one general shareholders and six brokers are taken into consideration to conduct the questionnaire survey and research findings.

This research will contribute to the literature in numerous ways: First, this study will give a clear idea about the importance of the annual report to the investors in decision making. Second, this study will also present what items of the annual report are significant to the investors. Third, the findings of the study will improve the quality of the annual report and make it more informative to the investors.

2. Objectives of the Study

- 1) To study the importance of the corporate annual reports in Bangladesh
- 2) To investigate importance of contents of the annual report to the shareholders
- 3) To find out the relation between the degree of reading and degree of thoroughness of the annual report
- 4) To bring out the findings based on the analysis and make some recommendations

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3. Literature Review

Abu-Nassar and Rutherford (1996) stated that the annual corporate report is the most important source of information for all user-groups. The importance of the financial report is emphasized by the Financial Accounting Standard Board (Financial Accounting Standard Board, 2008) in the Statement of Financial Accounting Concepts No. 1 (SFAC No. 1) as amended, which states that "financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit, and similar decisions" (Paragraph 34). Abdulla (1992), Mirshekary and Saudagaran (2005), Al-Razeen and Karbhari (2007), Al-Attar and Al-Khater (2007), and Al-Abdulqader, Hannah and Power (2007) found that corporate reports are considered by investors as the most important sources of information for investment decisions. However, Naser, Nuseibeh and Al-Hussaini (2003) reported that individual investors rank the annual report as the second most important source of information, following direct information from companies. However, they reported that institutional investors rank annual reports as the main source of information.

Generally, corporate reports contain a number of sections such as the board of directors' reports, auditors' reports, a balance sheet, an income statement, a statement of cash flow, notes on accounts, etc. The income statement and the balance sheet are perceived as the two most important sections of the annual report. Other sections of the report, such as the auditor's reports and board of directors' reports, are perceived to be relatively less important, compared to the income statement and the balance sheet (Al-Ajmi, 2009). Lee and Tweedie (1975) and Wilton and Tabb (1978) found that investors considered the income statement to be the most important section in the annual report. Day (1986) and Yap (1997) reported that cash flow statements have become important sources of information for users. Al-Attar and Al-Khater (2007) reported that the cash flow section was the only item of the annual report that the user groups have significant differences regarding its degree of importance. This is not unduly surprising as the findings reported by Lee and Tweedie (1975), Wilton and Tabb (1978) and Yap (1997). For developed countries, they revealed that individual and institutional investors have little interest in the cash flow statement as they are not sophisticated and may not pay too much attention to such a statement.

Al-Attar and Al-Khater (2007) found that respondents considered government publications and newspapers, magazines and journals to be very important sources which were up to date, useful and easy to access information. Respondents differed significantly in their perceptions about the importance of the cash flow section, the use of

accounting information for monitoring investment decisions, and the use of other available sources of information.

The income statement seems to provide the most important information to individual investors, which is profitability and the dividends, to decide whether to buy, to hold, or to sell the company's stock (Al-Ajmi, 2009). Lawrence and Kercksmar (1999) reported that investors frequently used income statement figures for the purpose of investment decisions. Al-Razeen and Karbhari (2007) found that individual investors attached a high level of importance to income statements, balance sheets, and the auditors' reports.

Al-Ajmi (2009) reported two findings on the basis of analysis of the questionnaire results and interviews in different fields: First, individual investors – as it has been found in other countries – perceived the financial statements as providing relevant and useful information for investment decisions. Second, accounting information plays a more important role than qualitative information in investment decisions. This fact is evident from the emphasis placed on the importance of both the balance sheet and income statement information. This emphasis arises from the importance of the company's profits and dividends to the investors.

The balance sheet was rated the most highly, and the auditor's report was rated the fourth by all user groups. This contradicts with the study of Abu-Nassar and Rutherford (1996) which revealed that the auditor's report was the most understandable section of the annual report while the balance sheet was the fourth. This is not surprising because 20 percent of their survey population was drawn from academics that usually are very familiar with auditing reports in general and with auditing terms specifically (Al-Attar & Al-Khater, 2007).

Wallace (1993) studied six user-groups in Nigeria while he found a low level of consensus among the individual user-groups; overall, users rated the auditor's report as the most important section of an annual report. Lee and Tweedie (1975) found that the executive's report was of great to moderate importance, over one-third of the respondents considered the directors' report to be of no importance and half of the respondents stated that the auditor's report could be ignored in any investment decisions.

Disclosing additional information to the market will reduce the uncertainty surrounding investment in the company's common stock. Lam and Du (2004) reported a negative relationship between a reduction in the level of voluntary disclosure and risk-adjusted returns, leading to higher firm value. Individual investors appear to require more information than companies currently disclose, in order to make sound and rational investment decisions. Such

information includes ownership of stocks by every member of the board of directors; the type and the volume of business relationships between all board members and the company; evaluation of the economic conditions, future expected performance, and statistics of the performance of the stock on stock exchange (Al-Ajmi, 2009).

Similarities and differences were observed between developed and developing countries. Users in developing countries do not perceive themselves as suffering from difficulties in understanding the information in the annual reports (Al-Attar & Al-Khater, 2007).

Daniels & Daniels (1991) concluded that the information contained in financial statements is necessary and useful but not sufficient to evaluate the financial condition of a company. Though annual reports in developing countries, user groups feel that there has been some improvement in reporting in recent years, but they wish to receive more information than currently provided (Abu-Nassar & Rutherford, 1996; Hatif & Al-Zubaidi, 2000; Naser & Nuseibeh, 2003). Dye and Bowsher (1987) found that most users want an annual report to contain other information which increases their understanding. Hay & Antonio (1990) found that users of annual reports wanted to see highly detailed disclosures. Anderson (1981) found that users desired information on future prospects, company products, divisional performance, the provision of management audit reports, and publication of quarterly reports. Benston (1976) reported that financial press and newspaper reports were considered to be the most important source of information other than the annual report. Baker and Haslem (1973) showed that individual investors attach a great deal of importance to information concerning future expectations for the company.

4. Methodology

In this study, the mixture of qualitative and quantitative methods are used in the research. The major sources of secondary data are journals, text books, and different articles regarding this issue in different countries. In this research, structured questionnaire is developed to find out the required data and take the techniques of investigation. The questionnaire is presented to the individual investors and stock brokers by face to face conversation. In this study, randomly individual thirty one investors from different professions and six stock brokers are being selected as respondents. The list of Stock Brokers are : Jamal Ahmed & Co., Rapid Securities Ltd., Harpoon Securities Ltd., Sadid Securities Ltd., International leasing securities, Fokrul Securities Ltd.

5. Data Analysis

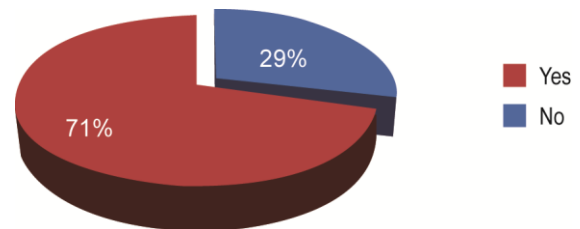
5.1. Knowledge of Shareholders

In case of investing in a share market, shareholders should have a sufficient knowledge about finance and accounting, International Financial Reporting Standard (IFRS), tax law, upcoming rules and regulation, analyzing techniques of stock market ups and downs, etc. This knowledge can come from different ways. Shareholders can gather relevant knowledge from their academic courses, attending different training programs, experience and education.

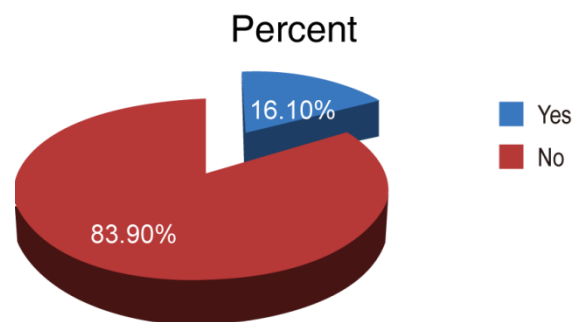
5.1.1. Shareholders Completing Course

Accounting and financial knowledge is very important for making investment decisions. Again, in case of analyzing financial reports and ratios, accounting and financial knowledge help shareholders. The following chart shows whether a shareholder has completed any accounting or finance related course or not.

From this chart, it is found that most of the shareholders (71%) didn't complete any accounting or finance related course in their academic life. Only 29% shareholders replied that they have taken any accounting and finance related course which is a very lower rate.



<Figure 1> Course Completion



<Figure 2> Training of investors

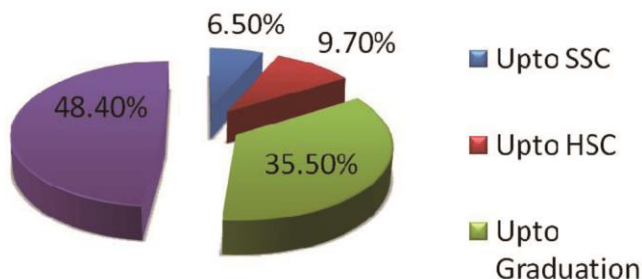
5.1.2. Shareholders with Training

In Bangladesh, Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE) provide different training programs on different issues of share market investment. Shareholders can attend these training programs and learn many things related to their investment. The following chart shows whether a shareholder has attended training programs or not.

Only 16.10% of shareholders has responded that they have attended training programs. This is a very lower rate of attendance. This has happened because many shareholders may not know about these trainings. Again, these training programs need time and cost. However, as most of the shareholders are engaged with other professions they may not have sufficient time to spend on these trainings. Also, in the short run, the investment training cost can increase their investment cost.

5.1.3. Educational Qualification:

Share market investment is a very judgmental and analytical decision. Having higher educational background can help the shareholders to better understand about the share market issues and the share market trend. The following phi-chart shows about the educational level of shareholders who have been approached for this report.



<Figure 3> Educational qualification of shareholders

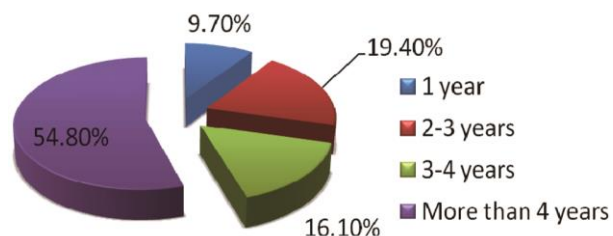
This chart shows that most of the shareholders have a higher educational background of graduation and post-graduation. This might seem contrast to previously found that most of the shareholders did not complete any accounting or financial course. However, the fact is that most of the shareholders have completed their graduation and post-graduation from different backgrounds such as science, humanities, etc. As a result, they didn't complete any accounting or finance related course though they are graduates and post graduates.

5.1.4. Experience of the Shareholders:

Investment experience of shareholders can also enrich

their knowledge. A shareholder who has been investing in the share market for a longer period of time can better understand about share market trends. He may have more knowledge about share market than a fresh investor. The following graph shows shareholders experience of investing in the share market.

Below chart shows most of the shareholders, who have been approached, have an experience of more than four years. It is because they entered in the share market at least before 2009 or 2008 when the share market of Bangladesh was in a booming situation. As a result, most of the share-holders were interested in entering and invest in the share market.



<Figure 4> Experience of Shareholders

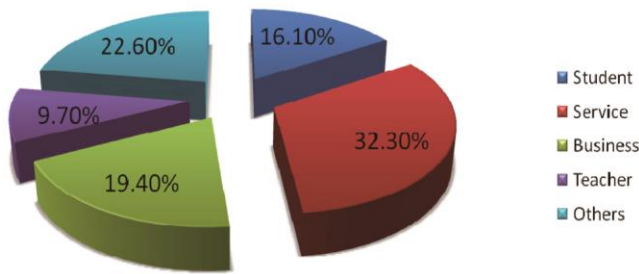
5.2. Capability or Scope of Reading Annual Reports

If the shareholders have sufficient knowledge, they must have the capability or scope of reading annual reports. In some cases, the shareholders may have sufficient knowledge but they may not have enough scope or time to read an annual report due to their profession or other limitations. As a result, this section analyzes the occupation of shareholders to find out their scopes to read annual reports.

5.2.1. Occupation of the Shareholders

Share market investment is not a full time profession. Most of the investors are engaged with others professions and invest their savings or idle money in the securities. So, some shareholders' occupations can arrange their time to read annual reports whereas the rest may get fewer opportunities to read annual reports. The following chart shows different occupations which most of the shareholders belong.

This chart shows that most of the investors are mainly service holders and businessmen. Service holders, such as bankers, insurance employees and government employees, basically invest their idle money in the share market. Again, businessman, banker and insurance employees have more opportunity to read annual reports due to their professions than the other groups of investors.



<Figure 5> Occupation of shareholders

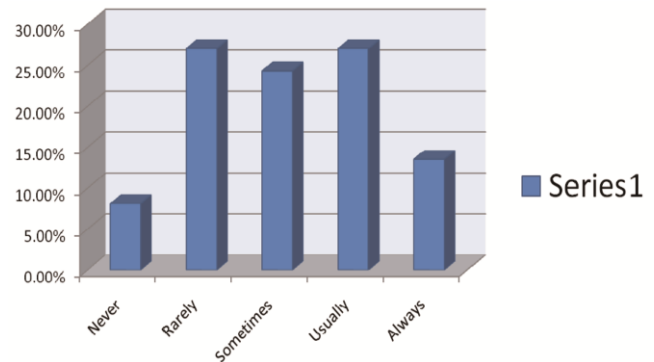
5.3. Reading Annual Report

The third focus on this analysis is whether the investors read annual report or not. Shareholders may have enough knowledge and scope but they may not read annual reports of different companies. Reading of annual report depends on the perception of the shareholders regarding how much important an annual report is. The importance and reading thoroughness of annual report will be discussed in the next section of this chapter. This section will focus how frequently shareholders read annual reports.

This frequency bar diagram shows that most of the shareholders read annual reports rarely, sometimes and usually. That is the extremeness of reading annual report. For example, never reading annual report and reading annual report always are very low. This indicates that shareholders consider the annual report important. So, at least they try to read it when they get enough scope.

To analyze, whether the investors read the annual report or not and how frequently they read the annual reports, a statistical test has been performed. The mean value

received from respondents is 3.11 which denote investors read annual reports sometimes or more than sometimes. To test, whether this result obtained from sample represents of population or not, one sample t-test has performed in this study. Here, our test value is set at 2 because value 1 represents never read of annual reports by the investors and value 2 represents annual reports are rarely read. Other values above 2 means annual reports are read by the investors.



<Figure 6> frequency of reading annual report by the shareholders

<Table 1> Results of the Hypothesis Test

Topic	Mean	Std. Deviation	t	Significance (2 tailed)	Mean Difference
Annual report reading	3.11	1.20	5.63	>0.001	1.11

<Table 2> Results of the Hypotheses Test

Topic	Mean	Std. Dev.	Mean Difference	t	Significance (2 tailed)	Decision	Rank
Brokers advice	3.58	1.23	0.58	2.85	0.007	H ₀ rejected	5
Friends and family advice	3.16	1.19	0.16	0.83	0.413	H ₀ is not rejected	9
Annual Report	3.81	1.20	0.81	4.12	0.000	H ₀ rejected	2
Interim Report	3.38	1.30	0.37	1.77	0.085	H ₀ is not rejected	7
Company Management	3.59	1.34	0.59	2.69	0.011	H ₀ rejected	4
Media Reports	3.89	1.02	0.89	5.31	0.000	H ₀ rejected	1
Publication by DSE	3.67	1.25	0.67	3.29	0.002	H ₀ rejected	3
Technical Analysis	3.43	1.50	0.43	1.75	0.088	H ₀ is not rejected	6
Internet	3.38	1.50	0.38	1.54	0.133	H ₀ is not rejected	7
Rumors	2.14	1.44	-0.86	-3.66	0.001	H ₀ rejected	10

<Table 3> Results of the Hypotheses Test

Topic	Mean	Std. Deviation	Mean Difference	t	Significance (2 tailed)	Decision	Rank
Company Objective	3.35	1.51	0.35	1.41	0.166	H ₀ is not rejected	11
Chairman's Review	2.86	1.38	-0.13	-0.60	0.554	H ₀ is not rejected	15
Director Report	3.11	1.33	0.10	0.50	0.624	H ₀ is not rejected	13
Corporate Government Statement	3.32	1.41	0.32	1.34	0.190	H ₀ is not rejected	12
Audit committee Report	3.78	1.35	0.78	3.45	0.002	H ₀ is rejected	6
Auditors report to SH	3.83	1.42	0.83	3.51	0.001	H ₀ is rejected	4
Balance Sheet	3.97	1.23	0.97	4.74	0.000	H ₀ is rejected	2
Income Statement	4.17	1.05	1.17	6.63	0.000	H ₀ is rejected	1
SCE	3.97	1.16	0.97	5.04	0.000	H ₀ is rejected	2
CFS	3.78	1.20	0.78	3.90	0.000	H ₀ is rejected	6
Accounting Policy	3.43	1.39	0.43	1.90	0.066	H ₀ is not rejected	10
BS Notes	3.61	1.38	0.61	2.66	0.012	H ₀ is rejected	9
IS Notes	3.73	1.37	0.73	3.25	0.003	H ₀ is rejected	8
CFS Notes	3.51	1.30	0.51	2.40	0.022	H ₀ is rejected	10
Value Added Statement	2.30	1.52	-0.65	-0.99	0.030	H ₀ is rejected	15
Environment Report	2.21	1.61	-0.59	-1.45	0.046	H ₀ is rejected	16
Reviews	3.81	1.27	0.81	3.90	0.000	H ₀ is rejected	5
Essay	3.00	1.44	0.00	0.00	1.000	H ₀ is not rejected	14

<Table 4> Results of the Hypotheses Test

Topic	Mean	Std. Deviation	Mean Difference	t	Significance (2 tailed)	Interpretation	Rank
Company Objective	2.89	1.37	-0.11	-0.48	0.634	H ₀ is not rejected	11
Chairman's Review	2.51	1.30	-0.49	-2.27	0.029	H ₀ is rejected	16
Director Report	2.69	1.30	-0.31	-1.43	0.162	H ₀ is not rejected	14
Corporate Gov. Statement	2.83	1.32	-0.17	-0.77	0.447	H ₀ is not rejected	13
Audit committee Report	3.19	1.35	0.19	0.87	0.393	H ₀ is not rejected	8
Auditors report to SH	3.31	1.39	0.31	1.32	0.196	H ₀ is not rejected	5
Balance Sheet	3.75	1.23	0.75	3.67	0.001	H ₀ is rejected	1
Income Statement	3.75	1.18	0.75	3.81	0.001	H ₀ is rejected	1
SCE	3.58	1.25	0.58	2.80	0.008	H ₀ is rejected	3
CFS	3.25	1.20	0.25	1.25	0.221	H ₀ is not rejected	6
Accounting Policy	3.05	1.47	0.05	0.22	0.824	H ₀ is not rejected	10
BS Notes	3.11	1.30	0.11	0.51	0.613	H ₀ is not rejected	9
IS Notes	3.27	1.35	0.27	1.22	0.230	H ₀ is not rejected	6
CFS Notes	2.89	1.33	-0.11	-0.50	0.624	H ₀ is not rejected	11
Value Added Statement	2.36	1.20	-0.64	-3.20	0.003	H ₀ is rejected	17
Environment Report	2.19	1.47	-0.81	-3.36	0.002	H ₀ is rejected	18
Reviews	3.57	1.34	0.57	2.57	0.015	H ₀ is rejected	4
Essay	2.68	1.39	-0.32	-1.36	0.183	H ₀ is not rejected	15

The hypothesis of the test is set as below:

H₀: $\mu - 2 = 0$ (Annual report is not read)

H₁: $\mu - 2 > 0$ (Annual report is read)

The hypothesis is tested at 95% of confidence level. Since alternative hypothesis is set as the population mean will be greater than 2, null hypothesis will be rejected if p-value is less than 0.05 and alternative hypothesis will be accepted if t-statistic is positive. The result derived from the calculation is presented as below:

Since p-value 0.001 < significance level 0.05 and t-statistic is positive, the null hypothesis of this test is rejected and alternative hypothesis is accepted. So, the study conclude that there is statistically significant difference between the hypothesized population mean, which is 2, and the sample mean, which are 3.11.

The implication of this hypothesis testing is that most of the investors read annual report sometimes, usually and always. Here, the study can conclude that the investors are very much concerned about the importance of reading annual reports while they are making their investment decisions.

5.4. Perceived Importance of Information Sources for Investment Decisions

To analyze whether the source of investment decision perceived by the user and their degree of importance of the sources, the study uses one sample t-test. This test is performed for each source of information to the investors. The null hypothesis of this test was there, and it would be a considered source, at least moderately important by

investors. It means that if any investor perceives the sources as moderately important. The null hypothesis was tested at 95% confidence level. From the result of test, it is found that all the sources are considered at least moderately important except rumors. The mean difference of rumors is negative that means rumor is considered by the investors as less than moderately important. The main reason behinds this may be that there is no formal structure of making rumors. When they take decision based on opinions of others, they do not recognize that it is a rumor.

The Brokers Advice, Annual Report, Discussion with Company Management, Media reports and Publications by Dhaka Stock Exchange are considered more than moderately important by the investors. This conclusion is drawn as their mean value is greater than 3 and mean difference is positive. Other sources of information are considered as moderately important by the investors.

5.5. Importance of Annual Report Contents to the Shareholders

From the above table, the study found that the significance value is more than 0.05 in many cases. When it is less than 0.05, the null hypothesis is rejected. Then I looked for the mean difference. Positive mean difference indicates that sample mean is higher than the population mean. So, the readers perceive the components of the annual report as more than moderately important. On the other hand, Negative mean difference indicates that sample mean is lower than the population mean. So, the readers perceive the components of annual report as less than moderately important to read.

<Table 5> Results of Descriptive Statistics of the Survey

Topic	Mean importance	Mean thoroughness	Ranking based on mean importance	Ranking based on mean thoroughness
Company Objective	3.667	2.903	6	9
Chairman's Review	2.83	2.484	8	15
Director Report	3.167	2.689	6	13
Corporate Gov. Statement	3.167	2.756	6	12
Audit committee Report	4.333	3.033	4	8
Auditors report to SH	4.167	3.167	5	5
Balance Sheet	4.500	3.533	3	2
Income Statement	4.667	3.600	2	1
SCE	4.833	3.367	1	4
CFS	4.333	3.067	4	6
Accounting Policy	4.500	2.807	3	11
BS Notes	4.833	2.833	1	10
IS Notes	4.667	3.065	2	7
CFS Notes	4.500	2.613	3	14
Value Added Statement	3.000	2.267	7	16
Environment Report	2.000	2.258	9	17
Reviews	4.667	3.387	2	3
Essay	3.000	2.689	7	13

For the test of hypotheses, in case of 'Value Added Income Statement' and 'Environment Report', null hypothesis is rejected indicating the readers' perceive these components as less than moderately important to read. On the other hand, the other components for which null hypothesis is rejected, attains more than moderate importance to the readers. So, the readers' give importance to almost every component while reading the annual reports, except the mentioned two.

Among these variables, in terms of considering as an important variable of annual reports 'Income Statement' ranked as no. 1 and 'Environment Report' got the lowest rank among all other variables.

5.6. Degree of Thoroughness of Reading of Annual Report

To analyze whether each variable of annual reports is read at least moderately thoroughly by the investors or not, this study uses a two-tailed test. The null hypothesis of this test was that each variable is read at least moderately thoroughly by the investors and this null hypothesis was tested at 95% confidence level. The alternative hypothesis is that the components are not read at least moderately thoroughly by the investors. This also implies that the null hypothesis can be rejected for either more thoroughly read or less thoroughly read by the investors. The result of test are presented as below.

From the above table, this study found that the significance value is more than 0.05 in many cases. When it is less than 0.05, the null hypothesis of this test is rejected. Then the study looked for the mean difference. Positive mean difference indicates that sample mean is higher than the population mean. So, the readers read the components of the annual report as more than moderately thoroughly. On the other hand, negative mean difference indicates that sample mean is lower than the population mean. So the readers read the components of annual report as less than moderately thoroughly.

For the test of hypotheses, in case of 'Chairman's Review', 'Value Added Income Statement' and 'Environment Report', null hypothesis is rejected indicating the readers' read these components as less than moderately thoroughly. On the other hand, the other components for which null hypothesis is rejected, attain more than moderate thoroughness of reading to the readers. So the readers' read almost every component moderately thoroughly while reading the annual reports, except the mentioned three.

Among these variables, in terms of thoroughly read variables of annual reports both 'Income Statement' and 'Balance Sheet' ranked as no. 1, and here, 'Environment Report' got the lowest rank among all other variables.

5.7. Stockbrokers' Importance and Thoroughness

In this research, six brokerage houses also surveyed. Although it is tough to analyze and reach at a reasonable conclusion on the basis of the opinion of just six brokerage houses, this study aims to compare their perceived mean importance and mean thoroughness of reading annual reports. By analyzing their mean importance and mean thoroughness and rank them, this study is able to find that there is an inconsistency between their perceived importance regarding a content of the annual report and reading thoroughness of that content. According to the ranking of mean importance, it is found that statement of changes in equity and balance sheet notes are most important to them. Nevertheless, in case of reading thoroughness, they read income statement more thoroughly which was in the second position in the ranking of mean importance. Such inconsistencies are in case of most of the contents of the annual report. The most consistent mean importance and reading thoroughness are auditor's report and reviews. Auditors' report has been ranked at the fifth place in both cases whereas reviews have been ranked at the second place according to mean importance and in the third place according to mean thoroughness of reading. Another important point can be noted here. The mean importance of contents of annual report is very high here, which is around 4.5. This means that they consider that most of the contents are higher than moderately important. However, the brokerage houses don't read those contents as thoroughly as important regarding their consideration, because all the mean thoroughness of reading annual report is less than 4 and in some cases it is below 3. That means some contents of the annual report, such as accounting policy; audit committee's report, notes to the cash flow statement, are considered more than moderately important but read less thoroughly. So, there is an inconsistency. This may happen because of the small number of stock brokerage houses have been surveyed. Another reason of such inconsistency may be, stock brokers have taken enough trainings and they have sufficient knowledge than shareholders and investors. So, they need not to go through these contents as thoroughly as the investors do. Yes, they think those contents are important, but because of their training, education and experience they need less time to go through the contents of annual reports.

5.8. Degree of Thoroughness of Reading Annual Report Perceived Users

To analyze whether there is any significant difference between the importance of reading different components perceived by the user and their thoroughness in reading

those components of the annual report, our study uses paired sample t-test. The null hypothesis of this test was that there would be no significant difference between degree of importance in reading and degree of thoroughness in reading. It means, if any investor perceives any component (say, Company Objective) as maximum important, he or she will most thoroughly read that component. This null hypothesis was tested at 95% confidence level. The result of test are presented as below.

From the table above, I find that the correlation coefficient is more than 0.50 in every observations. So, the correlation between Degree of Importance and Thoroughness in reading is positively strongly related. For the test of hypotheses, this paper compared 2-tailed significance value with 5%. Except 'Income Statement Notes', '3 or 5 or 10-year-review' and 'Essay and pictorial on operations', for all other components, the null hypothesis is rejected. So the readers' perceived importance of different components and their degree of thoroughness in readings statistically significantly was different.

Company Objective, Mission and Vision Statement is perceived as important by the readers but it is not actually read as important as they perceive so. Same decision goes

for Chairman's Review, Directors' Report, Corporate Governance Report, Audit Committee Report, Auditors report to Shareholders, Balance Sheet, Income Statement, Statement of Changes in Equity, Statement of Cash Flows, Accounting Policy notes, Balance Sheet Notes, Income Statement Notes, Cash Flow Statement Notes, Value Added Statement Notes, Environmental Report, Reviews, 3 or 5 or 10-year-reviews and Essay and pictorial on operations. The probable reason for this difference is due to the lack of consciousness and lack of time while making investment decisions. For example, they perceive the importance of reading Balance Sheet as Great Important, with a mean value of 4.5 and their thoroughness in reading Balance Sheet has only a mean value 3.533. This sort of result implies that the readers may not have so much time for reading Balance Sheet before making investment decisions although they perceive that as important. Another possible reason may be that the investors do not have the annual reports readily available to read before making the investment decisions. Therefore, their perception on importance and their degree of thoroughness in reading differs significantly for almost every component.

<Table 6> Results of the Hypotheses Test

Components of Annual Report	Correlation	t-value	Significance (2 tailed)	Significance of Difference
Company Objective and Mission	0.884	3.01	0.005	Significant
Chairman's Review	0.776	2.34	0.026	Significant
Directors' Report	0.817	2.92	0.007	Significant
Corporate Gov. Statement	0.708	3.03	0.005	Significant
Audit committee Report	0.802	4.08	0.001	Significant
Auditors report to Shareholders	0.824	3.84	0.001	Significant
Balance Sheet	0.751	2.07	0.048	Significant
Income Statement	0.833	3.75	0.001	Significant
Statement of Changes in Equity	0.822	3.26	0.003	Significant
Cash Flow Statement	0.746	3.84	0.001	Significant
Accounting Policy Notes	0.849	3.05	0.005	Significant
Balance Sheet Notes	0.724	3.00	0.005	Significant
Income Statement Notes	0.661	0.17	0.865	Insignificant
Cash Flow Statement Notes	0.761	4.57	0.001	Significant
Value Added Statement	0.841	2.77	0.010	Significant
Environmental Report	0.806	2.44	0.021	Significant
3 or 5 or 10 year reviews	0.707	1.39	0.174	Insignificant
Essay and pictorial on operations	0.800	1.88	0.071	Insignificant

H_0 : $\mu_1 - \mu_2 = 0$ (There is no difference between Degree of Importance and Degree of Thoroughness in Reading different components of Annual Reports)

H_1 : $\mu_1 \neq \mu_2$ (Difference exists between Degree of Importance and Degree of Thoroughness in Reading different components of Annual Reports)

6. Findings

After interviewing thirty one stockholders and six stockbrokers, the findings I have gathered like most of the shareholders possess no particular accounting or finance knowledge; most of the investors do not have any special training on Capital Market and they have shown their educational qualification as post-graduation; most of their experience is more than four years; majority of shareholders are service-holders and read annual reports rarely, sometimes and usually. According to a Hypotheses testing <Table 1>, general investors at least moderately read annual reports and except rumors, and all other sources of information are treated as at least moderately important by the investors <Table 2>. In addition, except value added statement and Environment Report, all other variables are treated as at least moderately important by the investors <Table 3>. Moreover, except chairman's review, director's Report, corporate govt. statement and environment report, all other contents are treated as at least moderately important by the investors <Table 4>. Additionally, in most cases, the level of importance and the level of thoroughness do not match with each other Except IS Notes, Reviews and Essays <Table 5>.

7. Recommendation and Conclusion

The findings of the study may be a little bit contradictory to the reality as this study is conducted with only 31 stockholders and 6 stockbrokers. This sample size was just too small to provide the ultimate conclusion of this study. However, some issues are recommended in order to improve the current condition. For instance, skilled human should be developed through proper training and awareness about how to invest by properly analyzing financial statements should be created among the people in order to promote financial literacy; annual reports should be transparent containing accurate accounting numbers that reflect the real picture of the prevailing economy; tendency toward short term investment should be discouraged. Investors need to develop their mindset in a way which will urge them to invest after proper evaluation of business models and underlying financial health. Accounting manipulation must be prohibited so that general investors can rely on the accounting numbers stated in the annual reports. During collecting the data for this study, majority of the investors are actively trading based on the rumors but that should not be done. Before investing in the market, the business model, financials, purpose of raising fund, management, governance should be judged.

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