TEST Engineering & Management
January – February 2020
ISSN: 0193-4120 Page No. 13478 - 13500

User's Perception on Corporate Annual Reports: Evidence from Sri Lanka

Ahamed Lebbe Sarifudeen [1]

[1,2]Department of Accountancy and Finance, Faculty of Management and Commerce , South Eastern University of Sri Lanka, University Park, Oluvi

[1] alsharifdeen@seu.ac.lk

Article Info
Volume 82
Page Number: 13478 - 13500
Publication Issue:
January-February 2020

Article History
***Article Received**: 18 May 2019*
***Revised**: 14 July 2019*
***Accepted**: 22 December 2019*
***Publication**: 24 February 2020*

Abstract

The purpose of this study is to examine how the users of corporate annual reports in Sri Lanka perceive the usefulness and relative importance of Sri Lankan's corporate annual report. A self-administrated questionnaire was distributed to individuals representing the seven groups identified. Descriptive methods, the Kruskal-Wallis (K-W) test, the Mann-Whiteny (M-W) test and One-way ANOVA test were used to achieve the objectives of this study. The results of the study reveal that most respondents strongly agree that annual reports published by the listed companies in Sri Lanka are considered as an important major source for their decision-making process; however, the timely release and availability of these annual reports to the public are becoming a great of concern. The study also reveals that the company information contained in the annual reports is not sufficient for the purposes for which it is used. Finally, these finding reveal that, compared to the developed economy, Sri Lankan users rely more on the information contained in the corporate annual reports than the other sources of information. Further, with developing economy in Sri Lanka and other developing countries, an annual report is likely to provide a more holistic view of a company's picture going further than what is statutorily required.

Keywords; *Perception; Corporate Annual Reports; Corporate information; Sri Lanka*

I. INTRODUCTION

The disclosure of the corporate report receives a great deal of interest in empirical studies and this area of study is growing on a large scale widely (Beattie, 2005). Binh (2012) argues that annual reports are usually an important means of obtaining accountability in the corporate sector and are often a means by which sectors can improve stakeholder's perceptions about their accountability.

Shehata (2014) says that many financial scandals around the world were due to the lack of proper disclosure of the company in annual reports. Because of the variety of financial scandals worldwide, Arif and Tuhin (2013) claim adequate disclosure in annual reports are now necessary in the corporate world in order to ensure transparency and accountability and also assist various interest groups in their rational decision making. Disclosure is considered as an important indicator of the quality of accounting (Robson and Marston, 1997). Murray (1976) states that the quality of corporate disclosure affects the ability of capital markets to assess a company's value. In addition, the quality of disclosure has a major impact on investors' ability to make better investment decisions (Singhvi and Desai, 1971).

Subsequently, researchers are much interested in determining the types of information and the level of disclosure that will meet the user needs and the variables that will significantly influence their decisions and the factors that affect corporate disclosure practices. Companies have multiple channels and tools to communicate with their stakeholders. Likewise, investors and other stakeholders use different sources of information for their decision making. Companies use different sources to publish information to the public: Corporate Annual Reports (CARs), magazines, newspapers, periodic bulletins, Web sites, special publications, direct communication with the company and so on. Many research have attempted to determine the source (s) on which users rely on their decisions and to what extent.

In developed countries, a wide range of researches have explored user's perceptions and their views on the importance of different information sources and the usefulness of corporate annual reports. Some of these focused on a specific group of users, such as financial analysts, individual investors or investment analysts. Some studies explored the perception of more than one user group and examine possible differences between these groups with regard to the usefulness or importance of information disclosed in annual reports for their decision making. The closer consideration at these studies disclosed that although there have been many studies conducted on corporate annual reports in countries with developed capital markets, and studies in emerging capital markets are rare. The conclusions of the studies conducted in developed capital markets cannot be applied to emerging capital markets, as there are large differences in economic, cultural, political and social factors between these two different markets. (Perera, 1989; Jaggi, 1975), the users of cooperate annual reports in emerging markets understand not much about the way the users view those reports. One of the most significant features of previous studies on this aspect is that most of these studies were limited to exploring the information needs of a very small group of users, and in most cases one or two (Malone et al, 1993).

II. REVIEW OF LITERATURE

In business activities, investors need reliable and timely information to make effective and effective investment decisions. This type of financial information can be obtained through many sources,one of the most important sources is annual report of companies. Mandatory disclosure and voluntary disclosure are two types information that are commonly disclosed in corporate annual reports (CARs). Mandatory disclosure refers to compliance with mandatory standards. If the disclosure element is mandatory, it is often assumed that the information element will certainly be disclosed; otherwise, the company will receive a qualified audit report or other regulatory sanctions. Voluntary disclosure means as disclosure in excess of mandatory requirements, which are the free choice of management to provide accounting and other information deemed relevant to the decision-making needs of users of their annual reports (Meek et al., 1995).

Most of the corporate disclosure research so far has been conducted in western countries, such as the United States, the United Kingdom and European countries. Only a few studies have been conducted in developing and emerging countries, like Sri Lanka. In developed countries, several studies have been conducted to explore user perceptions about the usefulness of information disclosed in cooperate annual report. These studies tested perceptions of different groups of users of annual reports. Some of them focused on one group of users such as individual investors. (e.g., Anderson and Epstein, 1995; Epstein and Freedman, 1994; Bartlett and Chandler, 1997; investment analysts); or (Bauman, 1989) financial analysts (Streuly, 1994).

Some studies, conducted in emerging countries, explore the perception of more than one user group and test potential differences among these groups' usefulness or relevance of information that is disclosed in CARs to make decisions.

These user groups may include institutional investors, individual investors, investment analysts, financial analysts, creditors, executives / managers and government officials, or academics. (Mirshekary and Saudagaran , 2005), (NaserAbdelkarim et al., 2009), (Zoysa and Rubkin, 2010), (Nassir

January – February 2020
ISSN: 0193-4120 Page No. 13478 - 13500

Zadeh,2011), and Alzarouni et al. (2011). Most of the studies show that most respondents rated annual reports as the primary information source for different user groups and the most often used source for their decision making. The financial statements have been classified as the most significant section in the corporate annual reports. Some of these studies reveal a high level of agreement among user groups on the relative importance of information elements in the corporate annual reports, but some others indicate a lack of consensus.

Annual reports are considered to be the most important source of corporate information for individual investors in Saudi Arabia, and also users of the corporate annual report ranked the income statement and statement of financial position as the most important disclosure section in the corporate reports in Saudi Arabia. (Abdulsalam, 1990); (Al Mahmoud, 2000) and (Al Razeen and Karbhari, 2007). Investors, government authorities, bankers and financial analysts perceive the annual reports of companies as an important and useful source for making investment decisions and categorized the company's statement of financial position, the auditor's report, the statement of cash flows, the statement of income and the notes to the financial statements as the main sections of the corporate annual reports of listed companies in Qatar. Users of annual reports of Kuwaiti listed companies strongly agreed that the annual reports of Kuwaiti listed companies are used as an important primary source of information for their decision making (Mishari M. Alfraih and Abdullah M. Almutawa, 2014). A study was conducted on the user's perception of corporate annual reports in Sri Lanka and found that most group of users use the annual reports to obtain stock transaction information. (De Zoysa, A. and Rudkin, K., 2010)

Findings of this study support recommendations that may help to increase confidence in capital markets and enhance stakeholder's confidence. The results of the study would also be useful for regulatory authorities, company boards, policy makers and market participants. At the international level, the results yield interesting conclusions to those in other emerging markets, particularly those developing countries that share similar social, political and economic environments.

III. OBJECTIVES OF THE STUDY

There are three main objectives of study: First, to study the perceptions and views of users of corporate annual reports of Sri Lankan listed companies and measure the relative importance of the components in these reports. Second, to ascertain whether the different user groups have different views or similar views of some selected aspects of annual reports.Third, to investigate the usefulness of certain voluntary items of information in corporate annual reports as perceived by external user groups.

Research Hypotheses

To achieve the research objectives, the following hypotheses were developed based on the literature surveyed discussed in the above section.

H1: There is no significant difference between different users' perceptions in relation the purposes of using annual reports.

H2: There is no significant difference between the perceptions of different users in relation to the importance of various information sources.

H3: There is no significant difference between the different user's perceptions in relation to the adequacy of theinformation provided in the annual reports.

H4: There is no significant difference between the perceptions of different users in relation the frequency of Information provided in the annual reports.

H5: There is no significance difference between different users' perceptions in relation to the importance attached the different parts of annual reports.

Published by: The Mattingley Publishing Co., Inc.

January – February 2020
ISSN: 0193-4120 Page No. 13478 - 13500

H6: The different user groups of corporate annual reports take different perspectives on the understanding of theaccounting information contained in different sections of these reports for their decision-making process.

H7. The different user groups of corporate annual reports have different views on the usefulness of information content in annual reports in the decision-making process.

H8. The various user groups of Sri Lankan corporate annual reports have different views on the problems that restrict the use of annual reports in their decision-making process.

IV. RESEARCH DESIGN

In order to obtain data information for the analysis of the objectives in this study, developed questionnaire were handed over to 125 respondents. However, only 100 respondent submitted the questionnaire back.

Table 1. Distribution of Respondents for group of participants

User	Sample	Response
Accountant in Company/Govt.	25	22
Manager/Executive in a Company ***/Govt.***	10	8
Banker	25	20
Assessor/Tax Officer	10	7
Lecturer/ Researcher	15	11
Investors	25	22
Financial analysts	15	10
Total	125	100

V. RELIABILITY OF DATA

In this research researcher used Cronbach Alpha to test the reliability of the measures used in the instrument. In order to test reliability, a Cronbach coefficient alpha was used as it is the most common method used for assessing the reliability for a measurement scale with multi-point items. The coefficient, which reflects homogeneity among a set of items, varies from 0 to 1. (George and Mallery , 2003) Provide the following rules of the thumb: >.9- Excellent, >.8- Good, >.7-Acceptable, >.6- Questionable, >.5 Poor and <.5- Unacceptable.

Variable	Cronbach's Alpha	No of Items
Sources of information	0.813	9
Importance of different parts of annual report	0.818	10
Understanding	0.959	10
Usefulness of annual report	0.840	8

Table 2. The Cronbach's Alpha Table

The Cronbach's Alpha Table (Table.1) actually shows the reliability of data or questionnaire. In other words, Cronbach's Alpha is the indicator for the testing the actual data, that it is reliable or not. In this research Alpha value is good. The researcher takes all variables and check the Cronbach's Alpha test for source of information, importance of different parts contained in corporate annual report, usefulness and understanding of annual report were 0.813, 0.818, 0.840 and 0.959, respectively which indicates the data is reliable and able to be used for study.

Validity of data

Validity refers to the extent to which an instrument measures what it is supposed to measure and a measuring instrument is valid when it does what is intended to do. Dunn (2001) defined the validity as the degree to which an observation or a measurement corresponds to the construct that was supposed to be observed or measured. Validity can be measured through different forms such as content validity, criterion – related validity, and construct validity (Opatha, 2003). Following Tables show the results of Kaiser-Mayer-Olkin (KMO) measures of sampling Adequacy of the data.

Table 3. KMO and Bartlett's Test (Source of information)

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		**.773**
Bartlett's Test of Sphericity	Approx. Chi-Square	262.637
	Df	36
	Sig.	.000

Table 4. KMO and Bartlett's Test (Importance of different part of annual report)

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		**.799**
Bartlett's Test of Sphericity	Approx. Chi-Square	300.648
	Df	45
	Sig.	.000

Table 5. KMO and Bartlett's Test (Understanding)

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		**.585**
Bartlett's Test of Sphericity	Approx. Chi-Square	829.992
	Df	3
	Sig.	.000

January – February 2020
ISSN: 0193-4120 Page No. 13478 - 13500

Table 6. KMO and Bartlett's Test (Usefulness of annual report)

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		**.823**
Bartlett's Test of Sphericity	Approx. Chi-Square	329.243
	Df	28
	Sig.	.000

Kaiser Meyer-Olkin Measure of Sampling Adequacy recommends accepting values greater than 0.5 (Parveen& Khan, 2014) and the value generated is 0.500 which falls in the range of being mediocre. So the validity of data is confirmed.

Respondents' Demographic Aspects

As shown in Table 7, the occupation was used to decide the different user groups for the sample of this study. According to the sample the main user groups were Accountant and Investors. It is around 22 percent per group out of the sample. The next two main user groups were Banker and lecturers/researchers each of which represents around 20 percent and 11 percent. Around 10 percent were represented by the Financial Analysts Finally, a small percentage represented the Tax officers and Managers for the sample.

The respondents in this study were 59 percent male and 41 percent females. Out of the respondents 100 percent were Sri Lankan. There was no time to gather data from foreign investors who deal with the CSE.

Most participants (69 percent) had a bachelor's degree or higher. The mean value of this category is 3.93, higher than the diploma level. However, respondents' profiles revealed that all respondents (100 percent) had at least an advanced level qualification (A / L), indicating that they had a higher level of education. Over 80 percent of the respondents in the sample had studied accounting at some level. 81 percent of the respondents were empowered with accounting and financial qualifications. There were very few users, around 5 percent, who have gained accounting/professional knowledge of accounting through tax examinations conducted by Department of Inland Revenue and banking examinations conducted by the Bankers' Association of Sri Lanka. Mean value of this professional qualification category shows sound accounting knowledge and professional background of the sample. The level of experience of the user's group was high, with 93 percent of them having more than one year's of working experience and 36 percent having more than 5 years' of working experience in their current capacity.

The experience level of the user's group is high, 93 percent of respondents having more than one year's of working experience and 36 percent having more than 5 years' of working experience in their current capacity.

Due to the time limitation, the researcher did not make much effort to find out individual and institutional investors. But due to the nature of different user groups they had purchased shares from the listed companies. The analysis of the sample revealed that 54 percent respondents owned shares in listed companies with a 2.2 mean value. In addition to that some user groups such as partners in audit firms, managers/executives, bankers and financial analysts had also purchased more than 50 percent shares out of their sample.

Published by: The Mattingley Publishing Co., Inc.

Table 7. Respondent's socio economic profile

Demographic Characteristic		%	Mean	S.D
Occupation			3.83	2.099
1	Accountant in Company/Government	22.0		
2	Manager/ Executive in Company/Government	8.0		
3	Banker	20.0		
4	Tax officer	7.0		
5	Lecturer/Researcher	11.0		
6	Investor	22.0		
7	Financial Analysts	10.0		
Gender			0.59	0.494
1	Male	41.0		
2	Female	59.0		
Nationality			1.00	0.00
1	Sri Lankan	100.0		
2	Non Sri Lankan	0.0		
Education Qualification			3.93	0.700
1	G.C.E.(O/L)	-		
2	G.C.E.(A/L)	4.0		
3	Diploma	14.0		
4	Bachelor's Degree	69.0		
5	PGD/Master's Degree	11.0		
6	Doctorate	2.0		
7	Other	0.0		
Accounting Knowledge/ Qualification			3.71	1.604
1	G.C.E (O/L, A/L)	4.0		
2	Diploma	15.0		
3	Bachelor's Degree	36.0		
4	CA/CIMA Parts, MAAT/SAT	22.0		
5	PGD/Master's Degree/Doctorate	7.0		
6	ICMA/CIMA/ACCA Membership	11.0		
7	ICA/FCA Membership	0.0		
8	Other (Please Specify)................	5.0		
Present Profession Experience			2.42	0.86
1	Less than One Year	7.0		

January – February 2020
ISSN: 0193-4120 Page No. 13478 - 13500

2	1-5 Years	55.0		
3	5-10 Years	29.0		
4	10-15 Years	7.0		
5	15-20 Years	2.0		
6	Over 20 Years	0.0		
Share Purchased			2.20	1.287
1	None	46.0		
2	One Company	14.0		
3	2-5 Company	16.0		
4	6-10 company	22.0		
5	11-20 Company	2.0		
6	Over 20 company	0.0		

Table 8. Purchased share (Occupation cross tabulation)

			Occupation							Total
			Accountant	Manager	Banker	Tax officer	Lecturer /Researcher	Investors	Financial Analysts	
Purchased share	None	Count	14	3	5	4	6	6	8	46
		% within Purchased share	30.4%	6.5%	10.9%	8.7%	13.0%	13.0%	17.4%	100.0 %
		% within Occupation	63.6%	37.5%	25.0%	57.1%	54.5%	27.3%	80.0%	46.0%
	One Comp:	Count	0	0	1	3	2	8	0	14
		% within Purchased share	0.0%	0.0%	7.1%	21.4%	14.3%	57.1%	0.0%	100.0 %
		% within Occupation	0.0%	0.0%	5.0%	42.9%	18.2%	36.4%	0.0%	14.0%
	2-5 Comp:	Count	0	5	8	0	3	0	0	16
		% within Purchased share	0.0%	31.2%	50.0%	0.0%	18.8%	0.0%	0.0%	100.0 %

January – February 2020
ISSN: 0193-4120 Page No. 13478 - 13500

	% within Occupation	0.0%	62.5%	40.0%	0.0%	27.3%	0.0%	0.0%	16.0%
6-10 Comp:	Count	8	0	6	0	0	6	2	22
	% within Purchased share	36.4%	0.0%	27.3%	0.0%	0.0%	27.3%	9.1%	100.0 %
	% within Occupation	36.4%	0.0%	30.0%	0.0%	0.0%	27.3%	20.0%	22.0%
11-20 Comp:	Count	0	0	0	0	0	2	0	2
	% within Purchased share	0.0%	0.0%	0.0%	0.0%	0.0%	100.0 %	0.0%	100.0 %
	% within Occupation	0.0%	0.0%	0.0%	0.0%	0.0%	9.1%	0.0%	2.0%

V. ANALYSIS AND RESULTS

The analysis of results is described under the following eight sections: The purpose of using annual reports, information sources, information adequacy, frequency of using annual reports, importance of different sections in the annual report, different user's group understanding on the annual report, the usefulness of the annual report and the factors restricting the usage of annual reports.

Purpose of using annual reports

The company's annual reports are used by various parties to obtain information for various reasons, such as investment, management decisions, lending, research and education. Respondents were asked to clarify their main objectives in using the company's annual reports for the purpose of determining whether there were any significant differences among the seven user's group with regard to their use of annual reports.

Table 9. Mean ranks of respondents- Purpose of using annual report

Purpose of using annual report	N	Mean Rank
To Decide whether to buy, hold or sell shares	23	78.39
To grant loan/trade credit to a company	5	26.50
To advice a client	22	36.73
To make decision for a client or employer	19	38.03
To evaluate income tax liability	6	54.00

Published by: The Mattingley Publishing Co., Inc.

January – February 2020
ISSN: 0193-4120 Page No. 13478 - 13500

Occupation	To make decision in managing the company	14	40.50
	To know about the company for academic purposes	11	63.00
	Total	100	

This suggests that the purposes of using annual reports are different vary widely among different group of users. The 78.39% of respondents indicated that they use the annual reports to acquire, buy or sell shares and it can be considered that the mostly users use the annual for the purpose to buy, hold or sell shares. This finding is consistent with a study conducted in Bangladesh (Karim, A.K.M, 1995).

Annual reports for making decision

Three user's group ((INV, ACC and FA) stated that they mostly use annual reports for the purpose of decision making while three other groups of users (MAN, BAN and TAX) considered the use of annual reports for decision making purpose was their second priority. The executives (managers) preference is quite reasonable because the information contained in the annual reports is very important to them for the decision making.

Table 11. Descriptive statistics (Annual reports for decision making)

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
Accountant in a Company/Govt.	22	4.27	.456	.097	4.07	4.47	4	5
Manager/Executive in a Co./Govt.	8	4.00	.000	.000	4.00	4.00	4	4
Banker	20	3.95	.686	.153	3.63	4.27	3	5
Tax officer	7	3.57	.787	.297	2.84	4.30	3	5
Lecturer/Research	11	3.09	.302	.091	2.89	3.29	3	4
Investors	22	4.50	.512	.109	4.27	4.73	4	5
financial Analysts	1	4.20	.422	.133	3.90	4.50	4	5

In general, the most of the user groups considered that buying, holding or selling as the most used purpose. It indicates most of the user's group are interested in share trading.

In general, the view that buying, holding or selling the shares was the considered as most used purpose by all respondents. indicates that most user groups are interested in equity investments. (Kareem, AKM, 1995) found that the second most preferred reason for using annual reports was to acquire, hold or sell shares in his private capacity, where 63.00 percent of the respondent's second most widely used purpose was identified as "general review /

Published by: The Mattingley Publishing Co., Inc.

January – February 2020
ISSN: 0193-4120 Page No. 13478 - 13500

academic purposes." (Hypothesis 01) There is no significant difference between different users' perceptions of the purpose of using annual reports.

Table 12. Test Statistics a,b

	Occupation
Chi-Square	38.180
Df	6
Asymp. Sig.	.000
a. Kruskal Wallis Test	
b. Grouping Variable: Purpose of using annual report	

The Kruskal Wallis test results ($x2 = 38.180$, df = 6, p = 0.000) showed that users ' perception of the purpose of using annual reports was significantly different among user groups ($P < 0.05$). The hypothesis was therefore supported with the findings. The results are shown in Table 12.

Source of information

In addition to the corporate ateannual reports, different user groups can use several other sources such as accounting advisory services, stock market publication, communication with company management, Information provided on the internet, friends' advice on investment decisions to obtain information to make their financial or non-financial decisions. The importance users attach to different sources of information may significantly vary among different user groups depending on the information needs of users.

In order investigate the significance of information sources and their perceived differences for each of the seven user groups, with the guidance of the study of De Zoysa and Rudkin (2010), the respondents were requested to choose the importance they attach to nine possible sources of information which can be used to obtain a financial and non-financial information.

Table 13 shows that the most important information source is the annual report having the highest mean score 4.66. Therefore, it can be reinforced that the annual report is the primary information source for various user groups in Sri Lanka. In addition to the annual reports, accounting advisory services were considered the next major source of information in the overall ranking (average score of 4.26). The publications on the stock market are considered the third most important source of information with a score of 4.19 and communications with the company's management are the fourth by various user groups. However, considering mean value of all the sources of information except advice of friends had a great to moderate importance. Other sources of information was considered as the leased importance source of information for all different user’s group with a men score 1.74.

The Kruskal Wallis test was conducted to determine if statistically significant variations between user groups existed in relation to the information sources mentioned in the questionnaire. The test showed that statistically significant differences ($P < 0.05$) existed between the different user groups with respect to six Advisory service of accounting, Stock market publication, communication with company management, Information provided on the internet, Personal knowledge about the company and other) of the nine information sources listed in the questionnaire other than the annual corporate reports. It is also revealed that different user groups had different views on corporate annual reports as a source of information. The opinion relating to three out of nine sources of information among different user groups had similar views.

Published by: The Mattingley Publishing Co., Inc.

TEST Engineering & Management

January – February 2020
ISSN: 0193-4120 Page No. 13478 - 13500

Table 13. Perceived reliability of sources of Information

Information Sources	Mean	Std. Deviation	Rank	Kruskal Wallis Test	
				X2	Significance
Company annual report	4.66	0.572	1	7.269	0.297
Advisory Service of accounting firms	4.26	0.747	2	29.296	0.000
Stock market publication	4.19	0.787	3	34.055	0.000
Communication with company Management	3.89	0.737	4	37.625	0.000
Information provided on the Internet	3.25	0.687	5	31.963	0.000
Personal knowledge about the company	3.14	0.652	6	58.677	0.000
Newspaper reports and other media reviews	2.73	0.529	7	12.831	0.46
Advice of friend	2.45	0.500	8	1.061	0.983
Other	1.74	0.613	9	30.480	0.000

Based on the ranking of information sources, Four of the seven user groups (EXE, BAN, LEC, and INV) ranked annual reports as their primary source of information while ACC and FA ranking them as the second most important source of information. Only one user group (TAX) ranked two other sources as their primary information sources ahead of annual reports, making the annual report the third most important source. The above table of rankings also shows that although more businesses are disclosing more information on the internet, most users still do not find it to be a very useful source of information for the reasons mentioned above.

This result is consistent with the findings of (Lane, M., Van der Vyver, G., Delpachitra, S. and Howard, S, 2004), which found that while the internet and e-commerce capabilities in Sri Lanka have become comparatively sophisticated. Sri Lanka's basic Internet infrastructure is either non-existent or unstable and quite expensive. (Lane et al., 2004). Likewise, "press reports and other media reports" have not been considered particularly important, despite recent efforts by the Securities and Exchange Commission to provide periodic information on corporate affairs through these media. The findings of this research are consistent with the study (Abu Nassar, M. Rutherford, PA, 1995) which examined the most widely used financial information sources in Jordan. They found that the most favored source of primary financial information was the annual report for four groups of users namely academics, stockbrokers, institutional shareholders and individual shareholders.

Table 14. Means of respondents relating to sources of information

Information Source	Occupation

Published by: The Mattingley Publishing Co., Inc.

January – February 2020
ISSN: 0193-4120 Page No. 13478 - 13500

	Accountant in a	Managers	Banker	Tax officer	Lecturer/Resea:	Investors	financial Anly:	Total
Advice of friends	2.41	2.38	2.45	2.43	2.55	2.50	2.40	2.45
Advisory services of accounting firms	4.59	4.63	3.85	4.14	3.36	4.45	4.70	4.26
Newspaper reports and other media reviews	2.82	2.50	2.45	2.86	2.64	2.86	3.00	2.73
Company annual report	4.41	4.75	4.6	4.86	4.64	4.82	4.80	4.66
Communication with company management	3.36	3.75	4.30	3.57	4.18	3.64	4.8	3.89
Stock market publications	4.68	4.25	3.80	3.86	4.64	3.64	4.80	4.19
Personal knowledge about the company	3.73	2.63	2.55	3.00	3.82	2.86	3.4	3.41
Information Provided on the internet	3.23	3.63	3.65	2.57	2.73	3.00	3.80	3.25
Other	1.64	3.00	1.65	1.43	1.55	1.77	1.50	1.74

Adequacy of information

With the study guidance on the adequacy of information in annual reports for different users (De Zoysa, A. and Rudkin, K., 2010), respondents were asked to indicate whether the annual reports they used contained sufficient information for their purposes.

It was revealed that only 39.0% of respondents considered the information contained in annual reports to be adequate and 53.4 percent of all respondents previewed the information contained in annual reports to be inadequate or partially adequate. The analysis showed that the information is insufficient to the users for the purposes of using them because because it was perceived by over 50% of respondents as partially adequate or not at all adequate.

The Kruskal-Wallis test analysis (Table 15) showed that (Hypothesis 03) there were statistically significant differences ($p<0.05$) of perception within different user groups relating to the adequacy of information. The test therefore revealed that all different user groups had similar perceptions of the adequacy of the information contained in the corporate annual reports.

Table 15. Adequacy of Information

		Frequency	Percent
Valid	Yes	39	39.0
	No	12	12.0
	Partially adequate	49	49.0
	Total	100	100.0
Descriptive Statistics			Adequacy

Published by: The Mattingley Publishing Co., Inc.

January – February 2020
ISSN: 0193-4120 Page No. 13478 - 13500

Mean	2.10
Std. Deviation	0.937
Test statistics a'b	
Chi- Square(x^2)	21.980[a]
Df	2
Asymp, Sig	0.000
Kruskal Wallis Test	
Groping Variable: Occupation	

When closely analyzing the results (refer Table.16), it is revealed that the tax officer did not give an indication that of the totally inadequate information contained in annual reports. However, when comparing the banker group with tax officer group 17.9 percent of the tax officer group had agreed that the information contained in annual reports was sufficient for their use. Therefore, according to Table.17, the first rank was obtained by the investor group and the second rank was obtained by the group Lecturer although they agreed totally with the statement given relating to the adequacy of annual report information.

Table 17 shows that, there is no significant difference of mean value among various user groups. Therefore, mean value of the different user groups also revealed that all groups had similar views relating to the sufficiency of information contained in annual reports. Tax officer group was the group which obtained the least mean value as shown in Table 17.

Table 16.: Adequacy of information (Occupation cross tabulation)

			Occupation							Total
			Accountant	Manager/Exe:	Banker	Tax officer	Lecturer/Reacher	Investors	financial Analysts	
Adequacv of information	Yes	Count	8	3	8	7	3	6	4	39
		% within Adequacy of information	20.5 %	7.7%	20.5%	17.9%	7.7%	15.4%	10.3%	100.0%
	No	Count	4	0	3	0	2	1	2	12
		% within Adequacy of information	33.3%	0.0%	25.0%	0.0%	16.7%	8.3%	16.7%	100.0%
	Partially adequate	Count	10	5	9	0	6	15	4	49
		% within Adequacy of information	20.4%	10.2%	18.4%	0.0%	12.2%	30.6%	8.2%	100.0%
Total		Count	22	8	20	7	11	22	10	100

Published by: The Mattingley Publishing Co., Inc.

January – February 2020
ISSN: 0193-4120 Page No. 13478 - 13500

	% within Adequacy of information	22.0%	8.0%	20.0%	7.0%	11.0%	22.0%	10.0%	100.0%

Table 17. Mean ranks of respondent (Adequacy of information)

	Occupation	N	Mean Rank
Adequacy of information	Accountant in a Company/Govt.	22	50.09
	Manager/Executive in a Co./Govt.	8	55.00
	Banker	20	49.03
	Tax officer	7	20.00
	Lecturer/researcher	11	55.18
	Investors	22	59.34
	Financial Analysts	10	47.50
	Total	100	

Frequency of using annual reports

Table. 18 indicates that very often (usually / always) the proportion of respondents who used annual reports was 37 percent. In comparison, the less frequent users (rarely / sometimes) are 58 percent, with annual reports maximum users being 95 percent. Only 5 percent of users have never made decisions using annual reports.

Further analysis was performed to test the fourth hypothesis. The fourth hypothesis was "there is no significant difference between perceptions of different users regarding the frequency of information provided in annual reports." The results of the Kruskal-Wallis test ($x2 = 79.200$, $df = 4$, $p = 0.000$) showed that the perception of users with regard to the frequency of use of annual reports was significantly different ($P < 0.05$) between user groups, so the hypothesis was not supported with the results.

Table 18. Frequency of annual report

		Frequency	Percent
Valid	Never	5	5.0
	Rarely	11	11.0
	Sometimes	47	47.0
	Usually	35	35.0
	Always	2	2.0

TEST Engineering & Management
January – February 2020
ISSN: 0193-4120 Page No. 13478 - 13500

	Total	100	100.0
Descriptive Statistics			Frequency
Mean			3.18
Std.Deviation			0.845
Test statistics a'b			
Chi- Square(x^2)			79.200[a]
Df			4
Asymp, Sig			0.000
Kruskal Wallis Test			
Groping Variable: Occupation			

When considering the mean values of different user groups relating to frequency of using annual reports (Table 19), it was found that managers and financial analysts were the most regular users of annual reports.

Table 19. Mean Rank of respondents- Frequency of using annual report

	Occupation	N	Mean Rank
Frequency of using annual report	Accountant in a Company/Govt.	22	58.64
	Manager/Executive in a Co./Govt.	8	60.50
	Banker	20	46.90
	Tax officer	7	28.14
	Lecturer/Researcher	11	42.18
	Investors	22	48.73
	financial Analysts	10	60.50
	Total	100	

Therefore, financial analysts in Sri Lanka use annual reports to make decisions. The second most user group was accountants. They are the consultants for the investors. So, it is assumed that they use annual reports frequently to advice their clients. Among the sample groups, Tax officers were considered as the least frequent user group for annual reports.

Importance of different part of annual report

Table 20 summarizes the average mean values for the perceived importance of different sections of the corporate annual report to user groups, the standard deviations and significant differences in mean values.

The ten sections of the annual report have been considered remarkably important for decision-making by different user groups in Sri Lanka. The

Published by: The Mattingley Publishing Co., Inc.

TEST Engineering & Management

January – February 2020
ISSN: 0193-4120 Page No. 13478 - 13500

Statement of financial position was the most significant section of an annual report having a mean score of 4.39 as perceived by different users. The next most significant section was the income statement having a 4.13 mean score. The mean scores relating to the Statement of cash flow , notes to the financial statements and auditor's report were also very close to scale 4. This suggests that these sections were also more significant as perceived by users.

The results show that the value added statement, and directors' report were rated as moderately significant This means that user groups are likely to rely on these reports for information that is either not included in the financial statements or less complication for decision making. Different users perceived that directors' report were the least important section in the annual report. Although director's report was ranked at the bottom of the list, it was very close to a moderately significant level.

Table 20. Perceived significance of annual report sections

Annual Report Section	Mean	Std. Deviation	Kruskal Wallis Test	
			X2	Significance
Statement of financial position	4.39	0.643	28.940	0.000
Statement of profit and loss account	4.13	0.646	27.740	0.000
Statement of cash flow	4.02	0.752	5.180	0.075
Accounting Polices	3.28	0.668	21.40	0.000
Notes to accounts	3.57	0.517	51.380	0.000
Movement in shareholder's fund	2.60	0.550	43.220	0.000
Auditors' Report	3.08	0.631	32.960	0.000
Directors' Report	2.43	0.498	1.960	0.162
Value add Statements	2.29	0.456	17.640	0.000
Statistical data/ summary of operations/Historical data	2.68	0.634	27.860	0.000

The results of the Kruskal Wallis test revealed that the observed differences among different user groups were significant at 1 percent ($p < 0.01$) with respect to eight sections out of ten sections of the annual report. But eight out of ten sections including the above two were significantly different among user groups at 5 percent significant level ($p < 0.05$). (Hypothesis 05) This suggests that the different group of users of corporate annual reports in Sri Lanka hold different views on the significance of the eight parts of the corporate annual report to their decision making process.

However, since the p-values calculated for the Kruskal-Wallis test for two sections of the annual report (statement cash flow and director's report) were greater than 5 percent ($P > 0.05$), there is no significant difference, in terms of statistics, among the user groups with respect to the importance of these attached two sections of an annual report.

Table-21 showed that six out of seven user groups ranked Statement of financial position as the most important section in the annual report, while financial analyst ranked the income statement as the most important section but the bankers ranked their importance totally different from other user groups.

January – February 2020
ISSN: 0193-4120 Page No. 13478 - 13500

Table 21. Means of Respondents relating to significance

Annual Report Section	Occupation							
	Accountant in a Company/Govt.	Managers	Banker	Tax officer	Lecturer/Resea:	Investors	financial Anly:	Total
Statement of financial position	4.64	4.25	4.45	3.86	4.55	4.09	4.70	4.39
Statement of profit and loss account	3.95	3.88	3.90	3.43	4.82	4.18	4.80	4.13
Statement of cash flow	4.27	4.38	3.75	3.00	4.73	3.50	4.80	4.02
Accounting Polices	3.45	3.50	3.05	2.71	3.55	3.14	3.60	3.28
Notes to accounts	3.50	3.75	3.25	3.71	3.55	3.64	4.00	3.57
Movement in shareholder's fund	2.41	2.50	2.7	2.57	2.64	2.50	3.00	2.60
Auditors' Report	3.14	3.88	3.30	2.57	2.55	3.00	3.00	3.08
Directors' Report	2.36	2.50	2.40	2.43	2.27	2.41	2.80	2.43
Value add Statements	2.18	2.38	2.50	2.43	2.09	2.36	2.00	2.29
Statistical data/ summary of operations/Historical data	2.50	2.38	2.55	2.57	2.36	3.32	2.60	2.68

Understanding

Table 22 provides a summary of the average mean value of the perceived understandability of each section to the seven user groups. Significant differences are also reported among user groups regarding their views on the understanding of these sections. The user groups understand all the sections of the annual report. The statement of financial position and the statement of cash flows were the most understandable sections of the annual report.

The results of the Kruskal Wallis test revealed that there were statistically significant differences in the perception of user groups at the level of 1 percent ($p < 0.01$) for ten out of the ten sections of the annual report. When considering the 5 percent significant level ($p<0.05$), two out of ten sections were significantly different among user groups. (Hypothesis 06) This suggests that the different group of users of corporate annual reports in Sri Lanka hold different views relating to the understandability of the two parts of the corporate annual report in their decision-making process.

The results of the Kruskal Wallis test also exposed that although user groups' perceptions in relation to their understandability of eight sections of annual reports were significantly different, they shared similar perception ($p> 0.05$) on their understandability of annual reports.

Published by: The Mattingley Publishing Co., Inc.

January – February 2020
ISSN: 0193-4120 Page No. 13478 - 13500

Table 22. Perceived Understandability of annual report sections

Information Sources	Mean	Std. Deviation	Rank	Kruskal Wallis Test	
				X2	Significance
Statement of financial position	4.78	0.418	1	15.865	0.014
Statement of profit and loss account	4.60	0.492	4	1.160	0.976
Statement of cash flow	4.74	0.441	2	13.768	0.032
Accounting polices	4.55	0.500	5	11.706	0.069
Notes to accounts	4.73	0.489	3	11.892	0.064
Movement in shareholder's fund	4.73	0.489	3	11.892	0.064
Auditors' Report	4.55	0.500	5	11.706	0.069
Directors' Report	4.60	0.492	4	1.160	0.979
Value add Statements	4.73	0.489	3	11.892	0.064
Statistical data/ summary of operations/Historical data	4.55	0.500	5	11.706	0.069

Usefulness of annual report

As shown in Table 23, group of users chosen an average mean value on the usefulness of corporate annual report above 3.5 to five out of the eight given statements, revealing a strong agreement on the usefulness of the information contained in the annual report. Average mean score was less than 3.5 for the seventh and eighth statements. It seems that all user groups gave priority (mean score 5.09) to obtain information about the company's performance over the other seven statements. The table shows that using information for liquidity purposes came second (mean score 4.60) in importance, the third most favored reason (mean score 4.11) for overall information content is relevant.

Kruskal-Wallis test indicated that the differences among the user groups in relation to usefulness of information content in annual reports were significant at the 5 percent significant level ($p<0.05$) for five out of the eight statements listed in the questionnaire. (Hypothesis 07) This proposes that the usefulness of information content in annual reports vary significantly for five statements across different user groups. The test also revealed that the different users had similar views ($p>0.05$) in obtaining information about the company's liquidity, management of the company and other.

Table 23. Perceived usefulness of information content in annual report

	Mean	Std. Deviation	Rank	Kruskal Wallis Test	
				X2	Significance
Overall information Content is relevant	4.11	0.723	3	53.403	0.000
To obtain information about the company's liquidity	4.60	0.492	2	11.922	0.064
To obtain information about the company's performance	5.09	3.957	1	41.300	0.000
To obtain information about the future	3.80	3.091	5	15.495	0.017

Published by: The Mattingley Publishing Co., Inc.

TEST Engineering & Management

January – February 2020
ISSN: 0193-4120 Page No. 13478 - 13500

potentials of the company					
To obtain information about management of the company	3.67	0.587	6	5.568	0.473
To evaluate income tax liability	4.06	5.168	4	20.884	0.002
To evaluate the information for academic purposes	3.40	0.936	7	61.693	0.000
Other	1.71	0.457	8	9.394	0.153

Table 24 shows the perceived usefulness of information content in annual reports by each user group. Seven user groups namely accountants, manager, bankers, lecturers, Investors and Financial analysts indicated that the most important statement is 'to obtain information about the company's performance while three user groups, the Accountant, Tax officers, Lecturer perceived that the most important statement is 'overall information content is relevant'. Assessors/ tax officers perceived that the statement 'to obtain information about the liquidity' to be the most useful statement for their purposes. The lecturers group perceived the information contained in annual reports to be useful for both company's performance and academic purposes.

Table 24. Means of respondents relating to usefulness of annual report

Information Source	Occupation							
	Accountant in a Companv/Govt.	Managers	Banker	Tax officer	Lecturer/Resea:	Investors	financial Anly:	Total
Overall information Content is relevant	4.73	3.75	3.40	4.57	4.55	3.73	4.50	4.11
To obtain information about the company's liquidity	4.41	5.00	4.75	4.57	4.55	4.50	4.70	4.60
To obtain information about the company's performance	4.86	5.00	5.00	4.14	4.55	6.45	4.10	5.09
To obtain information about the future potentials of the company	3.32	3.00	3.60	3.57	3.73	4.91	3.70	3.80
To obtain information about management of the company	3.68	4.00	3.50	3.71	3.82	3.55	3.80	3.67
To evaluate income tax liability	3.18	3.63	3.50	3.86	5.45	5.59	2.70	4.06
To evaluate the information for academic purposes	3.86	2.75	2.84	3.43	4.55	2.64	4.40	3.40
Other	1.76	1.50	1.50	1.86	1.91	1.73	1.80	1.71

January – February 2020
ISSN: 0193-4120 Page No. 13478 - 13500

Factors restricting the use of annual reports

The survey showed that the delay in the publication of annual reports was identified by the vast majority of respondents (28 per cent) as the main limiting factor in the use of annual reports in Sri Lanka. This item has been classified as the primary restriction factor by user groups. This indicates that users generally agree on how serious this limitation is. The use of annual reports was constrained by the apparent difficulty in obtaining them, with 23 percent of respondents citing it as the second major determining factor. Analysts and financial investors viewed this as the most serious constraint, ranking it before "delay in publication."

The results of the Kruskal-Wallis test showed p-values greater than 5 percent ($p > 0.05$) for all Six factors. This result suggests that (Hypothesis 08) there is no significant difference of opinion between user groups with regard to the factors that limit their use of annual reports. This result is consistent with a study done by (Mirshekary 1999) who also found the delay in publishing is primary reason that restricts the use of annual reports in Iran.

Table 25. Descriptive Statistics- Factor restricting the use of annual repots

	N	Minimum	Maximum	Mean	Std. Deviation
Factor Restricting the use of annual repots	99	1	6	3.23	1.583
Valid N (list wise)	99				

Table 26. ANOVA- Factor restricting the use of annual repots

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	8.337	6	1.390	.539	.778
Within Groups	237.320	92	2.580		
Total	245.657	98			

Source: Survey Data 18

Table 27. Test Statistics a, b- Factor Restricting the use of annual repots

Chi-Square	3.834
Df	6
Asymp. Sig.	.699
a. Kruskal Wallis Test	
b. Grouping Variable: Occupation	

CONCLUSIONS

The main objective of this study was to examine perceptions about the usefulness of corporate annual reports in Sri Lanka's emerging market, through a questionnaire covering a wide range of group of users. The majority of users group agreed that they frequently use annual reports, indicating the important role that the annual reports play in their decision-making functions. The results of the survey reveal that the main purpose of using the company's annual reports in Sri Lanka is to obtain the

January – February 2020
ISSN: 0193-4120 Page No. 13478 - 13500

information necessary to make decisions related with the acquisition, holding or sale of shares. The statement of financial position and the income statement were unanimously selected as the most important section of the annual report, followed by the statement of cash flow.

Nonfinancial sections of the report, such as the directors' reports and value add statements, were rated less important. It can therefore be stated that non-financial sections contained in the annual reports mostly do not provide useful information to assist users in making decisions. Moreover, companies are disclosing more information on the internet, users had given less priority on the importance of a company's web site as a source of information, implying that this source does not provide current information to Sri Lankan users of annual reports. Concerning the level of voluntary disclosure, most of user groups do not feel satisfied with the quantity of information provided by corporate annual reports. User groups indicate a desire for more information than listed companies currently disclose, to improve their decision making and the usefulness of corporate annual reports. This suggests an urgent need for the disclosure gap between users and preparers to be filled.

These finding reveal that, compared to the developed economy, Sri Lankan users rely more on the information contained in the corporate annual reports than the other sources of information. Further it reveal that an annual report is likely to provide a more holistic view of a company's picture going further than what is statutorily required in Sri Lanka.

REFERENCES

[1] Abdelkarim N, Shahin YA, Arqawi BM. Investor perception of information disclosed in financial reports of Palestine securities exchange listed companies. Accounting & Taxation. 2009;1(1):45-61.

[2] Abdelsalam M. The use of corporate financial reports by investors in Saudi Arabia. Advances in International Accounting. 1990;3:25-39.

[3] Abu-Nassar M, Rutherford BA. External users of financial reports in less developed countries: the case of Jordan. The British Accounting Review. 1996 Mar 1;28(1):73-87.

[4] Al-Ajmi J. Investors' use of corporate reports in Bahrain. Managerial Auditing Journal. 2009 Mar 20;24(3):266-89.

[5] Alanezi F. Composition of corporate board of directors and voluntary disclosure in the annual reports: The case of Kuwait. Arab Journal of Administrative Sciences. 2011;18(1):135-63.

[6] Alattar JM, Al-Khater K. An empirical investigation of users' views on corporate annual reports in Qatar. International Journal of Commerce and Management. 2007 Dec 31.

[7] Almahmoud SA. The usefulness of annual report information to participants in the Saudi stock market (Doctoral dissertation, University of Wales. Cardiff).

[8] Al-Mutairi AK. Empirical testing of various aspects of investment in the Kuwait stock exchange (KSE) (Doctoral dissertation, University of Wales, Cardiff,).

[9] Al-Razeen A, Karbhari Y. An empirical investigation into the importance, use, and technicality of Saudi annual corporate information. Advances in International Accounting. 2007 Jan 1;20:55-74.

[10] Al-Shammari B, Al-Sultan W. Corporate governance and voluntary disclosure in Kuwait. International Journal of Disclosure and Governance. 2010 Aug 1;7(3):262-80.

[11] Al-Shammari B. Voluntary disclosure in Kuwait corporate annual reports. Review of Business Research. 2008;8(1):62-81.

Published by: The Mattingley Publishing Co., Inc.

TEST Engineering & Management

January – February 2020
ISSN: 0193-4120 Page No. 13478 - 13500

[12] Alzarouni A, Aljifri K, Ng C, Tahir MI. The usefulness of corporate financial reports: Evidence from the United Arab Emirates. Accounting & Taxation. 2011;3(1):17-37.

[13] Anderson R, Epstein M. The Usefulness of Annual Reports: Australian shareholders want more information in annual reports and clearer explanations of what the numbers mean. Australian Accountant. 1995;65:25-.

[14] Arif HM, Tuhin MH. Disclosure of non-financial information voluntarily in the annual report of financial institutions: a study on listed banks of Bangladesh. European Journal of Business and Economics. 2013 Sep 1;8(2).

[15] Bartlett SA, Chandler RA. The corporate report and the private shareholder: Lee and Tweedie twenty years on. The British Accounting Review. 1997 Sep 1;29(3):245-61.

[16] Bauman WS. Investment research analysis in an emerging market: Singapore and Malaysia. Financial Analysts Journal. 1989 Nov 1;45(6):60-7.

[17] Beattie V. Moving the financial accounting research front forward: the UK contribution. The British Accounting Review. 2005 Mar 1;37(1):85-114.

[18] Bình TQ. Voluntary disclosure information in the annual reports of non-financial listed companies: the case of Vietnam. Journal of Applied Economics and Business Research. 2012 Jun 1;2(2):69-90.

[19] Chau GK, Gray SJ. Ownership structure and corporate voluntary disclosure in Hong Kong and Singapore. The International journal of accounting. 2002 Jan 1;37(2):247-65.

[20] De Zoysa A, Rudkin K. An investigation of perceptions of company annual report users in Sri Lanka. International Journal of Emerging Markets. 2010 Apr 13;5(2):183-202.

[21] Deegan C. Firms' disclosure reactions to major social incidents: Australian evidence. InAccounting forum 2000 Mar 1 (Vol. 24, No. 1).

[22] Epstein MJ, Freedman M. Social disclosure and the individual investor. Accounting, Auditing & Accountability Journal. 1994 Dec 1;7(4):94-109.

[23] Firth M. A study of the consensus of the perceived importance of disclosure of individual items in corporate annual reports. 1978.

[24] Marston C, Robson P. Financial reporting in India: Changes in disclosure over the period 1982 to 1990. Asia-Pacific Journal of Accounting. 1997 Jun 1;4(1):109-40.

[25] McNally GM, Eng LH, Hasseldine CR. Corporate financial reporting in New Zealand: An analysis of user preferences, corporate characteristics and disclosure practices for discretionary information. Accounting and business research. 1982 Dec 1;13(49):11-20.

[26] Mirshekary S, Saudagaran SM. Perceptions and characteristics of financial statement users in developing countries: Evidence from Iran. Journal of International Accounting, Auditing and Taxation. 2005 Jan 1;14(1):33-54.

[27] Murray R. Disclosure: The security markets and the economic system. Corporate Financial Reporting: The Benefits and Problems of Disclosure. New York, the AICPA. 1976:9-14.

[28] Naser K, Nuseibeh R, Al-Hussaini A. Users' perceptions of various aspects of Kuwaiti corporate reporting. Managerial Auditing Journal. 2003 Aug 1;18(6/7):599-617.

[29] Nassir Zadeh F. External users' perception about the importance of information resources. InInternational Conference On Banking And Finance 2011 Apr 13.