



Shareholders' Attitude towards Financial Statements Disclosure: Evidence from Sri Lanka

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Abstract

Purpose: The major objective of the study is to identify the relationship between financial statement disclosure and shareholder attitude change relating to the investors who have invested in the companies which are registered under the Colombo Stock Exchange.

Design/Methodology/Approach: Primary data was collected from 110 investors who invested in Colombo Stock Exchange. The questionnaire was designed to examine the shareholders' attitude change towards financial statement disclosure by considering their awareness and perception on quality of information disclose in Financial statements. Shareholder's attitude change is considered as the dependent variable with four indicators; Information Provision, Feedback and Consultation and Communication and Improvement. Financial Statement Disclosure is the independent variable and independent variable explained by four indicators namely, Income Statement Disclosure, Balance Sheet Disclosure, Cash Flow Statement Disclosure and Notes.

Findings: The result exposed the fact that income statement disclosure and the cashflow statement disclosure significantly changed the shareholder's attitude.

Practical Implications: The article offers insights to perception and attitude of shareholders to identify the shareholders' attitude change on financial statement disclosure indicate how shareholders react to financial statement disclosure and disclosure quality of reporting.

Originality/Value: The article presents significant evidence in terms of its scrupulous approach towards checking the toughness of results.

1. Introduction

The main objective of financial statements is to provide useful information for decision making (Hines, 1991; Mirshekary and Saudagaran 2005). The useful information is regarding financial position and changes in financial position which are associated with users' economic decision making. Financial statements provide the information relating to the company's financial position, operating results, company cash flows and equity changes details. Based on the information disclosure by the company levels of value on company shares are created. Accountability and the transparency of the financial statement disclosure can change the perception of the shareholders. As the owner of the firm, shareholders are very much attracted to the organization growth and profitability due to their capital investment, and also to refer quality financial information.

As the result, shareholders will consider the achievement of the companies. To recognize the progress of the firms, shareholders need to look at financial statement to consider the progress. Shareholders will consider some common relative questions in relation to their investment. Financial statements can help to make sense of information that can in turn change the attitude of shareholders. Hence, this study examines the shareholder's attitude change as a result of financial statement disclosure.

1.1 Statement of the Research Problem

Accounting information usually engages with financial statements which are communicated with the external users. Main purpose of the accounting information is assisting the users in making sound financial decisions. Information disclose by the organization may help investors in their financial decision as well as their perception in the investment. Investment decision on shareholders will depend on the information disclose by the organization. Shareholders may expect some key information about organization transactions which may help them to make an effective investment decision. Therefore, identification of key information disclosures by financial statement and the shareholder's requirement is important.

1.2 Research Questions

The main purpose of this research is to identify the relationship between financial statements disclosure and shareholder's attitude changes in Sri Lanka with special reference to the Colombo Stock Exchange. For the detailed analysis the research, research questions are based on the following questions:

1. What is the relationship between financial statements disclosure and shareholders' attitude changes?
2. How financial statements affects to the attitude of the shareholders

1.3 Significance of the study

The findings of this study contribute to the existing literature on the relationship between shareholder attitude and financial statement disclosure. Further, the findings from this research will have significant implications to financial statements makers such as Chief Financial Officers (CFOs) to identify which reports have more significant value and how shareholders react to financial statement disclosure. CFOs can identify the most significant and least significant reports according to the shareholders' perception and arrange their future reporting practises to improve the awareness of shareholders and to attract shareholders to use more financial reporting.

Moreover, Shareholders' attitude change resulting from financial statements disclosure implicate the quality of financial reports. Hence, findings of this study provide an implication to CFOs to identify the reasons for Shareholders' attitude change as well as encourage policymakers, other financial regulators to set the standards and financial rules and regulations.

2. Literature Review

Lengthening shareholders lists and increase in the number of shareholders indicate the need for corporate management to know the nature of shareholders preferences and objectives. (Clendenin and Mill 1958). Shareholders are very cognizant of the rules and regulations of the organization, as well as interested in the policy changes in the organization which are of benefit to them. Clendenin and Mill (1958), explain that, companies make policies to try to satisfy the shareholders. Further, financial

statement disclosure helps shareholders to determine the business activities of the organization which helps them to make an identification of risk and return of the investment, (Bajtelsmit and Ligon 1996). Hence, the quality of the financial statement is one of the most important requirements for the shareholders which contain the accuracy of the financial statement disclosure.

According to the financial Accounting Standard Board (FASB) conceptual framework, quality of financial information can be judged based on the qualitative characteristics explained in FASB model, i.e., decision usefulness, relevance, reliability, timelines, feedback value, predictive value, comparability, verifiability, neutrality and representational faithfulness. Further, FASB argued that quality of financial reporting must be defined using overall objectives of financial reporting, (Jonas and Blanchet, 2000).

Mirshekary and Saudagaran (2005), examined the perceptions of financial report users in developing countries and found that the income statement, the auditors' report, and the balance sheet are the most significant sections of annual reports which users refer more. Further, annual reports have been identified as the most important source of financial information. Meanwhile, groups that use annual reports believe that delaying financial report disclosure is a negative indication of quality and information content in the annual report. Ding, et al., (2008), stated that corporate governance and proper theoretical framework in business environment provides a valuable platform for shareholders' attitude change towards company. Country specific rules and regulations and adoption of accounting standards frameworks helps to attract shareholders towards a company. Further, Ding, et al., (2008) stated that shareholders are more concerned on short-term profit in a company and information asymmetry. Hence, it implies that financial statement disclosure and quality of reporting are the major expectations of shareholders.

There are few studies that assess the attitude and perceptions of users of financial statements, (Mirshekary and Saudagaran 2005), thus this study examines the shareholder's attitude on financial statement disclosure.

3. Research Methodology

3.1 Conceptual Framework

Financial statements are one of the major sources of information generation that serve multiple purposes in an organization. Hence, the main indicators which reflect on the financial statement disclosure which are identified as independent variables in this study are; income statement disclosure, balance sheet disclosure, cash flow statement disclosure and notes. Shareholders' Attitude Change is considered as the dependent variable. Shareholders' attitude change is measured using their perceptions on financial statements disclosure information relating to profitability ratio, liquidity ratio, debt ratio and efficiency ratio, financial statement disclosure quality, audit report and adoption of accounting standards. The model of the research is explained as follows;

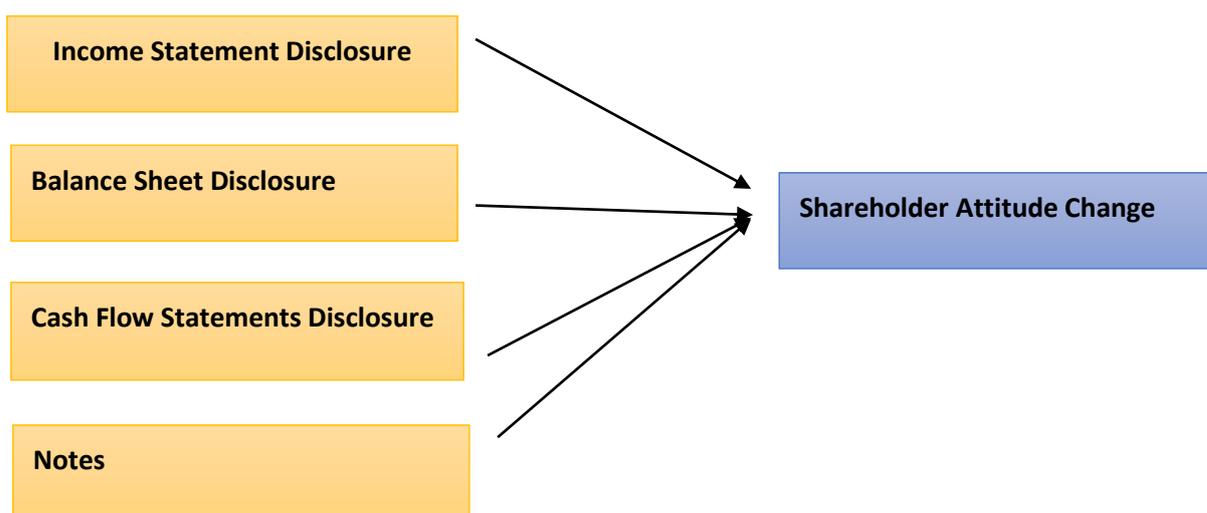


Figure 3.1 Conceptual Framework

3.2 Research Hypothesis

The regression model is used to measure the strength of the relationship between financial statement disclosure and shareholders' attitude change, statistically. Hence, the following hypothesis was formulated with the expectation of financial statements disclosure change shareholder's attitude.

$$H_0: \beta_1 = \beta_2 = \beta_3 = \beta_4 = 0$$

$$H_1: \text{at least one } \beta \neq 0$$

β_1 = the coefficients of income statement disclosure

β_2 = the coefficients of balance sheet disclosure

β_3 = the coefficients of cash flow statement disclosure

β_4 = the coefficients of notes

Shareholder's Attitude Change

$$\begin{aligned} &= \beta_0 + \beta_1 \text{ IncomeSt.} + \beta_2 \text{ BalanceSt.} + \beta_3 \text{ Cashflow.St} + \beta_4 \text{ Notes} \\ &+ \mu_i \end{aligned}$$

In the same manner, it can consider the following hypotheses;

H₀: There is no relationship between financial statement disclosure and shareholder's attitude change

H₁: There is a relationship between financial statement disclosure and shareholder's attitude change

3.4 Research Sample and Data Collection

The main objective of this study to investigate the relationship between the financial statement disclosure and shareholder's attitude change with special reference to the shareholders in Sri Lanka. The primary data was collected by issuing the questionnaire to the shareholders in the Colombo stock exchange.

There are 290 listed companies in the Colombo Stock Exchange under 20 sectors. All shareholders who invested in the listed companies are considered as the proposed population of the research study. For data collection, a sample size of 200 randomly selected persons was identified. These 200 shareholders were randomly selected and given the questionnaires. Of the 200 questionnaires distributed, 110 shareholders responded, and the response rate is 55%.

The collected data was analysed by using the SPSS software. The correlation analysis, regression analysis is used to interpret the relationship and the impact financial statements disclosure shareholder's attitude change.

4. Data Analysis

4.1 Numeric data

Table 4.1 *Gender Classification of Shareholders*

Criteria	Percentage
Male	82.7%
Female	17.3%

Gender classification of shareholders indicate that 82% of shareholders are men and 18% of them are female. Shareholders need to take a risk for investing on stock market. Most of the female risk averse and men are most likely to take the risk.

Sharma and Saha (2015), examined the impact of company's cash flow reporting on the shareholders' investment decision making and found that the gender, educational qualification and occupational background of the investors do not have any impact on their use of reported cash flows into the investment decision making process. Conversely, Mirshekary and Saudagaran (2005), found that most of the annual report users have a university degree.

Table 4.2 *Career Position of Shareholders*

Criteria	Percentage
Government Employee	8.2%
Corporate Employee	20%
Professional Employee	25.4%
Top Managers	20%
Businessman	26.4%

Data reveals that 26.4 percent of shareholders represent businessmen and 25.6 percent of shareholders are professional employees. 20 percent them are corporate

employees and managers. Only 8.2 percent account for government employees in this sample. It perceives that businessman show an affinity for taking on risk.

4.2 Correlation Analysis

Table 4.3 *Correlation Analysis*

		01	02	03	04	05
Share Holder Attitude change (01)	Pearson Correlation	1	.556**	.500**	.260**	.288**
	Sig. (2-tailed)		.000	.000	.006	.002
Income Statement Disclosure (02)	Pearson Correlation		1	.604**	.063	.383**
	Sig. (2-tailed)			.000	.516	.000
Balance Sheet Disclosure (03)	Pearson Correlation			1	.396*	.258**
	Sig. (2-tailed)				.000	.006
Cash Flow Statement Disclosure (04)	Pearson Correlation				1	-.047
	Sig. (2-tailed)					.625
Notes (05)	Pearson Correlation					1
	Sig. (2-tailed)					

Based on the correlation analysis, financial statement disclosure significantly correlates to shareholder's attitude change. All the variables have significant positive correlation with shareholder's attitude change. Income statement disclosure and balance sheet disclosure highly correlate with shareholder's attitude change compared to the notes and cashflow disclosure.

4.3 Multiple Regression Analysis

Table 4.4 *Model Summary and Analysis of Variance*

	Sum of Squares	df	Mean Square	F	Sig.
Regression	2.731	4	.683	16.221	.000
Residual	4.419	105	.042		
Total	7.151	109			
R ²	.382				

The correlation coefficient of squared, R² of the model (0.618² = 0.382), indicate that four predictors (income statement disclosure, balance sheet disclosure, cash flow

statement disclosure and notes) explains almost 38 percent of variance of shareholder’s attitude change.

The total sum of squares (4+105 =109) indicate the squared error that would occur if the analysis used only the mean of Y to predict the dependent variable, shareholder’s attitude change. Using the value of four predictors this error reduces by 38.2 percent (2.731 ÷ 7.151). This reduction is deemed statistically significant with F ratio of 16.221 and a significance level of 0.000.

Table 4.5 Regression coefficient among variables

	Unstandardized		Standardized	t	Sig.
	Coefficients		Coefficients		
	B	Std. Error	Beta		
(Constant)	1.130	.361		3.133	.002
Income Statement Disclosure	.357	.088	.415	4.033	.000
Balance Sheet Disclosure	.130	.092	.153	1.414	.160
Cash Flow Statement Disclosure	.177	.086	.178	2.060	.042
Notes	.063	.053	.098	1.174	.243

Unstandardized coefficient shown as “B” in the Table 4.5. The unstandardized regression coefficient for income statement disclosure (.357) and cash flow statement disclosure (.177), explain that income statement disclosure and cash flow statement disclosure significant positively impact on shareholder’s attitude change. In the analysis, balance sheet disclosure and notes are not significantly related to shareholder’s attitude change. The significant value for balance sheet disclosure and notes are .160 and .243 respectively, well in excess .05.

From the regression coefficient, the following regression equation can be derived to predict Y score for shareholder’s attitude change.

Shareholder’s Attitude Change

$$= 1.130 + 0.357_{IncomeSt.} + 0.130_{BalanceSheet} + 0.177_{cashFlow} + 0.063_{Notes}$$

5. Conclusion

Results of this study explain that a higher number of men are interested in investing in the stock market. This group is represented by businessmen, professionals, corporate and top managers. Investing in the share market is very difficult because the analysis of changes in share value is hard. Therefore, shareholders usually use the information provided by the financial statements for their decision making. The correlation of this study explains that all four variables of financial statement disclosure have a positive and significant relationship with the shareholder's attitude change.

The highest correlation is found in the income statement disclosures and balance sheet disclosure. The key information regarding the organization's transactions which are given in the income statement and balance sheet could be the reason for this result. Cash flow statement disclosure and notes have a positive correlation with shareholders' attitude change in a small amount of value. According to Sharma and Saha (2015), cash flow reports seem to be used less by individual investors due to the personal characteristics of small-town investors.

Respondents indicate that most shareholders use cash flow statements to check the end cash balance only. Further, some shareholders see the "top twenty list" from notes. Respondents indicate that financial statements help shareholders to make their decision on stocks and most shareholders' requirements of using financial statement analysis is to verify the profit, net asset per share, total equity, end cash balance and the top twenty list. Since the balance sheet statement disclosure and notes have a significant positive correlation with the shareholder's attitude change, regression analysis shows an insignificant relationship. Therefore, the final conclusion of this study is that income statement disclosure and the cash flow statement disclosure change the shareholder's attitude.

Table 5.1 Decision Table

H0	H1	Sig. value	Correlation	Decision	Conclusion
$\beta_1 = 0$	$\beta_1 \neq 0$.000	.556	Reject H0	There is a positive relationship between income statement disclosure and shareholder's attitude change.
$\beta_2 = 0$	$\beta_2 \neq 0$.160	.500	Do not reject H0	The relationship between balance sheet disclosure and shareholder's attitude change is insignificant.
$\beta_3 = 0$	$\beta_3 \neq 0$.042	.260	Reject H0	There is a positive relationship between cashflow statement disclosure and shareholder's attitude change
$\beta_4 = 0$	$\beta_4 \neq 0$.243	.288	Do not reject H0	The relationship between notes and shareholder's attitude change is insignificant.

Source: Author Compiled Based on Survey Data

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