

# A Study on Investor Perception based on Company's Annual Report among Salaried Class People at Chennai City

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## INTRODUCTION

Financial requirement of an individual finds no boundaries. Every individual aim at maximizing the flow of income from whatever source possible. Investment means employment of funds on assets with the aim of earning of income or capital appreciation. The two main factors that influence investment decisions are time and risk. Investment is the allocation of money to assets that are expected to yield some gain over a period of time. The main criteria for investment are the expected return, risk involved, and liquidity of investment the different activities, but the common target in these activities is to wealth.

A wide variety of investment vehicles exist including (but not limited to) stocks, bonds, commodities, mutual funds, exchange-traded funds (ETFs), options, futures, foreign exchange, gold, silver, retirement plans and real estate. Investors typically perform technical and/or fundamental analysis to determine favorable investment opportunities, and generally prefer to minimize risk while maximizing returns. There are 2 types of investors

- [1] Retail investors
- [2] Institutional investors

An Investor's perception is his way of understanding something related to the company he invested in. It may also refer to his thoughts or ideas about the company that he intends to invest in. One of the main factor which influence the investor is the annual report which is a comprehensive report on a company's activities throughout the preceding year. Annual reports are intended to give shareholders and other interested people information about the company's activities and financial performance. The content of the report includes

- Introduction of the company
- Corporate governance
- Financial information
- Auditor's report
- Shareholder communication

According to a survey conducted by a group in Gothenburg (Sweden), Annual reports are of great importance to the stakeholders and investors. Even though the information is not up to date it is still important to receive a document that is audited and approved by a Chartered accountant.

## REVIEW OF LITERATURE

**Shanmugham (1990) "A Study on Investors' Awareness of Investment"**, examined the factors affecting investment decision and found that the investors are high risk takers. The investors possessed adequate knowledge of government regulations, monetary and fiscal policy.

**The Financial Reporting Council (FRC, 2011) – "Cutting clutter"**, called for cutting 'clutter' in order to improve the usefulness of annual reports. By clutter it means 'immaterial disclosures that inhibit the ability to identify and understand relevant information and explanatory information that remains unchanged from year to year.'(p.6) FRC called for three actions to tackle clutter: 1) continue to encourage debate about what materiality means from a disclosure perception (p.23); 2) investigate the possibility and potential benefits of separating explanatory information within or outside the printed annual report (p.26); and 3) engage with other stakeholders regarding their information requests (p.29).

**According to Rajsee Joshi (2015) – "Stakeholders' perception of Voluntary Disclosures in Indian Corporate Annual Reports"**. Annual reports are commonly regarded as an important means of acquitting

accountability in the corporate and government sectors and often are one of the means by which sectors can improve stakeholders' perceptions of their accountability.

### OBJECTIVE OF THE STUDY

- To study the major aspects of an annual report that an individual shall consider while investing in a company.
- To ascertain the areas and aspects that make a company's annual report more attractive in order to attract more investors.

### RESEARCH METHODOLOGY

Ninety two salaried people with different back-ground were chosen by convenience sampling method, to conduct a pilot study.

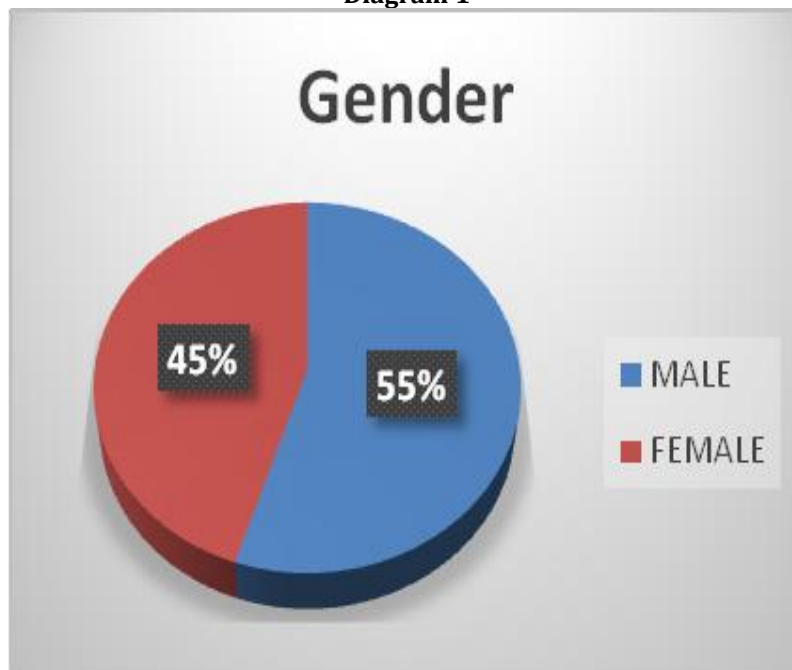
Initially, in order to get the in depth information open-end questions were asked to the selected respondents. A 'self-designed' questionnaire was prepared based on the discussion. 5 Likert scale was chosen to collect the data. Around 60 people responded the questionnaire.

### PRESENTATION, ANALYSIS AND FINDINGS

Table 1

GENDER	NUMBER OF RESPONDENTS	PERCENTAGE
MALE	33	55
FEMALE	27	45

Diagram 1



The above table and diagram show that 33 respondents (55%) were male and 27 respondents (45%) were female.

Table 2

EDUCATION LEVEL	NUMBER OF RESPONDENTS	PERCENTAGE
SCHOOL LEVEL	11	18.33
UG	35	58.33
PG	3	5
PROFESSIONAL COURSE	9	15
DOCTORATE	2	3.33

Diagram 2

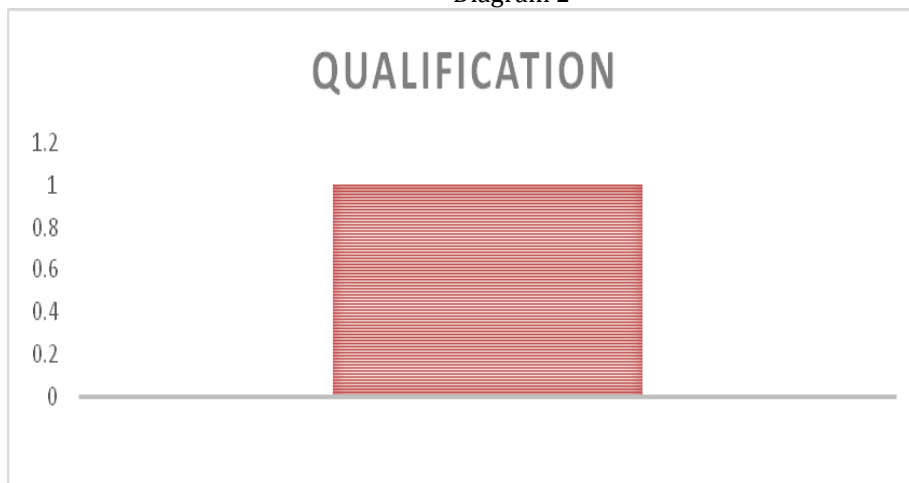
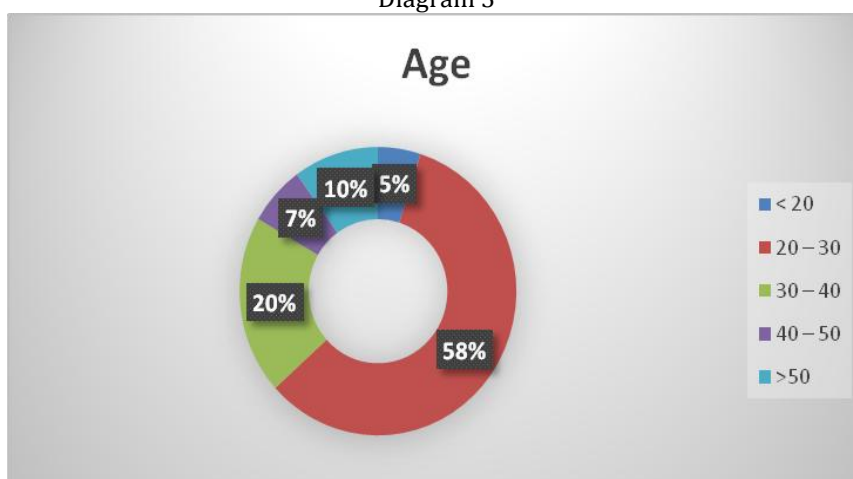


Table 3

AGE	NUMBER OF RESPONDENTS	PERCENTAGE
< 20	3	5
20 – 30	35	58.33
30 – 40	12	20
40 – 50	4	6.67
>50	6	10

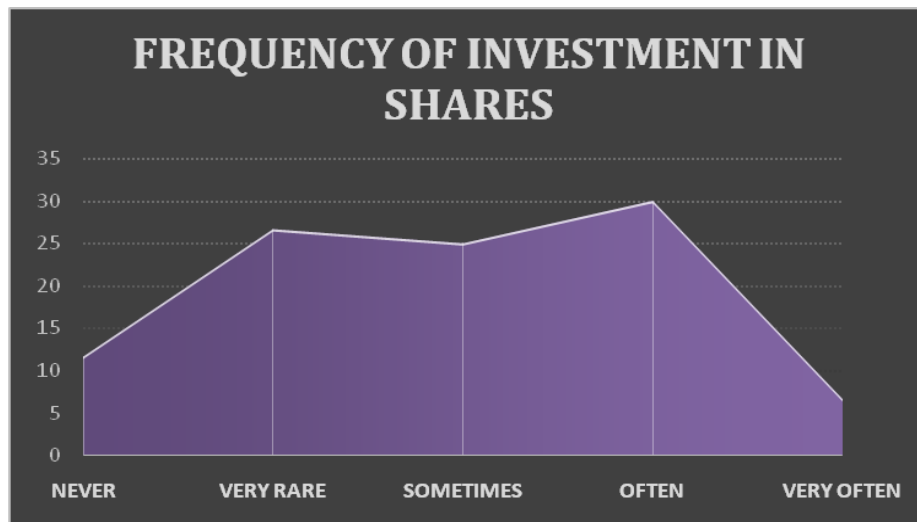
Diagram 3



## FREQUENCY OF INVESTMENT IN SHARES

Table 4

FREQUENCY	NUMBER OF RESPONDENTS	PERCENTAGE
NEVER	7	11.67
VERY RARE	16	26.67
SOMETIMES	15	25
OFTEN	18	30
VERY OFTEN	4	6.67

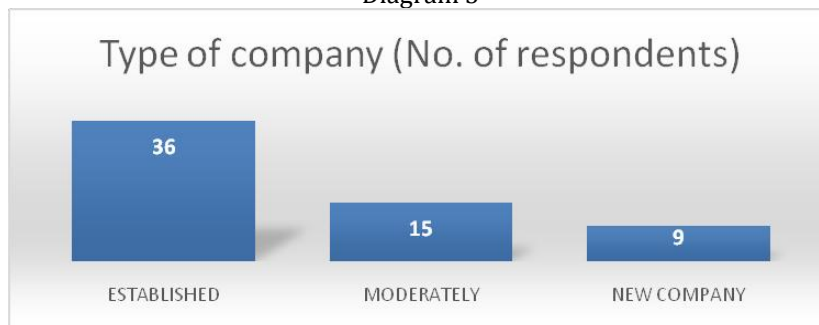


The above diagram helps us to understand that majority of the respondents 53 in number i.e., 88.67% of the respondents have invested in shares of the companies. Only 7 respondents have not yet invested in any company.

Table 5

TYPE OF COMPANY	NUMBER OF RESPONDENTS	PERCENTAGE
ESTABLISHED COMPANY	36	60
MODERATELY KNOWN COMPANY	15	25
NEW COMPANY	9	15

Diagram 5



It can be easily understood that respondents favor established companies over new companies. It is because of the risk element associated with investing in a new company.

#### Weighted Average Level of Importance for the Factors Affecting Investors Perception

Table 6:

FACTOR	WEIGHTED AVERAGE LEVEL OF IMPORTANCE
RETURN ON INVESTMENT	3.80
MARKET TREND/ RISK	3.50
SHORT TERM PROFITABILITY	3.23
PRICE OF THE SHARE	3.32
DIVIDEND POLICY	3.55
PAST FINANCIAL PERFORMANCE	3.58
COMPANY REPUTATION	3.98
REPUTATION OF THE BOARD	3.62
CURRENT EARNINGS OF THE COMPANY	3.50
EXPERT OPINION	3.40

Diagram 6

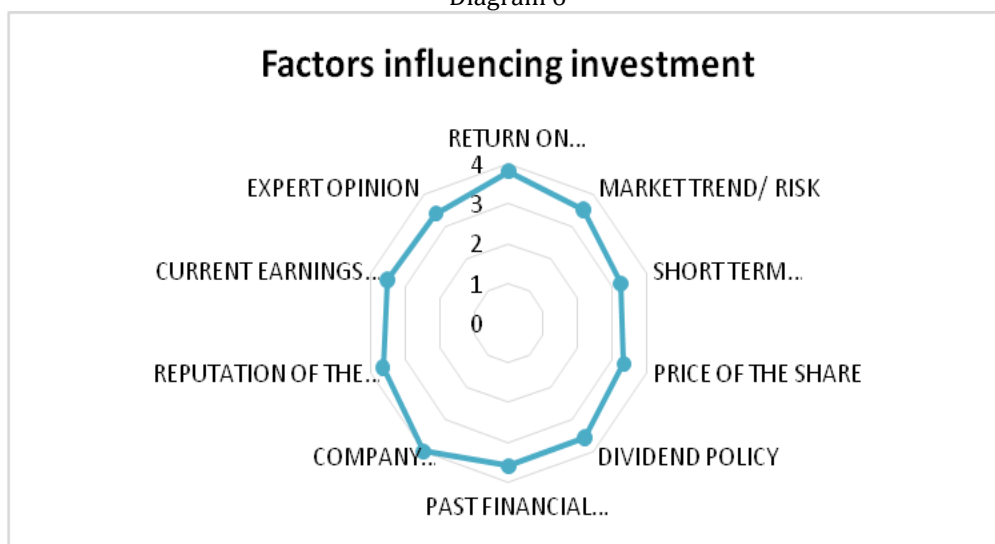
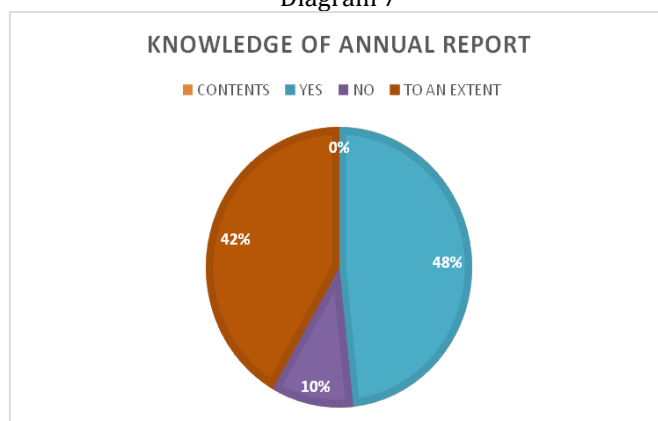
**Contents of Annual Report**

Table 7

KNOWLEDGE ON CONTENTS	NUMBER OF RESPONDENTS	PERCENTAGE
YES	29	48.33
NO	6	10
TO AN EXTENT	25	41.67

Diagram 7



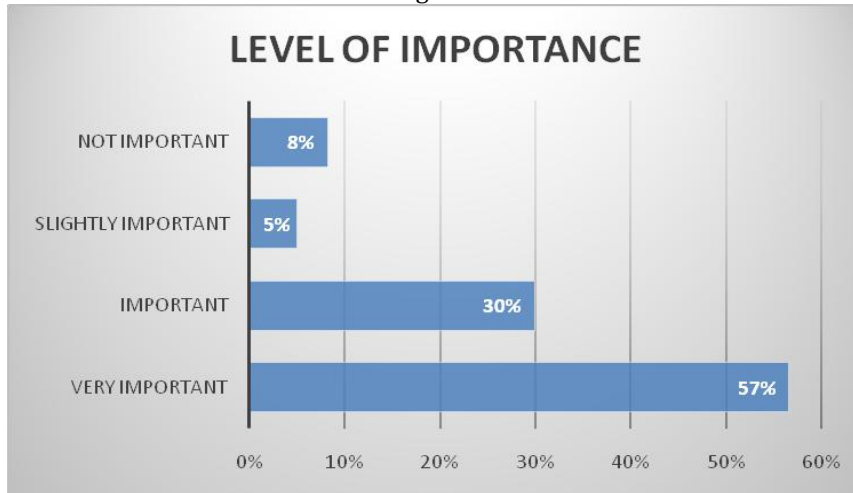
A large proportion of the respondents (90%) knew the contents of an annual report to an extent. The annual report is an important document that every investor should know about.

**Importance of Annual Report**

Table 8

LEVEL OF IMPORTANCE	NUMBER OF RESPONDENTS	PERCENTAGE
VERY IMPORTANT	34	56.67
IMPORTANT	18	30
SLIGHTLY IMPORTANT	3	5
NOT IMPORTANT	5	8.33

Diagram 8



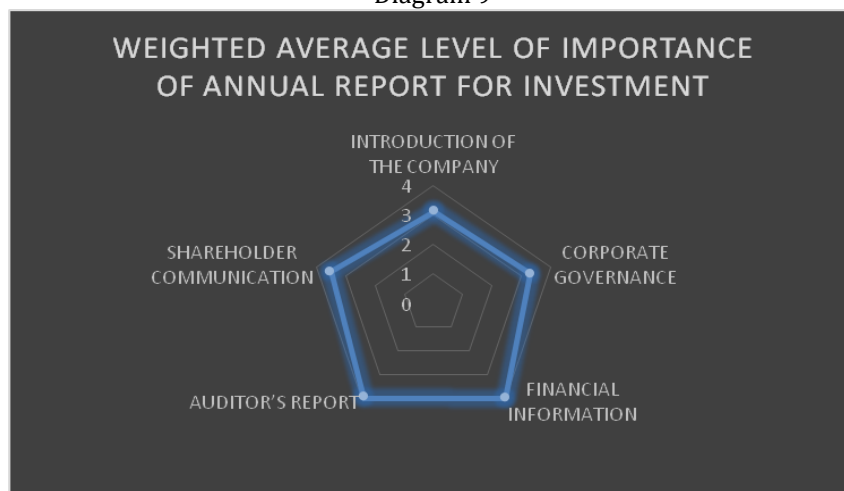
The annual report is a way of communicating the information about the company to the stakeholders. It is necessary for a company to prepare an exhaustive annual report as the majority of the respondents (57%) feel it is very important.

#### Weighted Average Level of Importance for the Contents of Annual Report

Table 9

CONTENT	WEIGHTED AVERAGE LEVEL OF IMPORTANCE
INTRODUCTION OF THE COMPANY	3.15
CORPORATE GOVERNANCE	3.28
FINANCIAL INFORMATION	3.95
AUDITOR'S REPORT	3.90
SHAREHOLDER COMMUNICATION	3.55

Diagram 9



#### Consolidated Analysis of Findings

The weighted average levels of importance of various factors affecting investor perception and the contents of an annual report are analyzed and ranked on the basis of their weighted average levels of importance. This gives a clear picture about the preferences of the respondents (existing and potential investors).

### 5 Major Factors that Influence Investor Perception



### 3 Most Important Contents of Annual Report



RANK	FACTOR	WEIGHTED AVERAGE LEVEL	RANK	CONTENT	WEIGHTED AVERAGE LEVEL
1	COMPANY REPUTATION	3.98	1	FINANCIAL INFORMATION	3.95
2	RETURN ON INVESTMENT	3.80	2	AUDITOR'S REPORT	3.90
3	REPUTATION OF THE BOARD	3.62	3	SHAREHOLDER COMMUNICATION	3.55
4	PAST FINANCIAL PERFORMANCE	3.58	4	CORPORATE GOVERNANCE	3.28
5	DIVIDEND POLICY	3.55	5	INTRODUCTION OF THE COMPANY	3.15
6	MARKET TREND/RISK	3.50			
6	CURRENT EARNINGS	3.50			
8	EXPERT OPINION	3.40			
9	PRICE OF THE SHARE	3.32			
10	SHORT TERM PROFITABILITY	3.23			

## CONCLUSION

The study was conducted to understand the evaluation or perception of an Investor on the annual report of a company as well as to analyze the investor behavior with respect to various factors that influence an investment decision.

The findings of this study suggest that the investors' use of the annual report as a source of information for investment decision making is evident. The factors that were ranked highly in level of importance, namely, company reputation, return on investment, reputation of the board, past financial performance, dividend policy is all ascertained with the help of the information available in the annual report of a company. The contents of annual report that were ranked heavily such as the financial information, auditor's report, shareholder communication, etc. are the type of information that needs to be present in a company's annual report.

## RECOMMENDATIONS REGARDING ANNUAL REPORTS

**Financial information and Auditor's report** are the most important contents of an annual report in the eyes of an investor. The following recommendations are given to the companies with a view to improve the annual reports.

1. Quantity of the information in the annual report should be trimmed down and emphasis should be laid on the completeness of the information.
2. Clutters (Unnecessary and immaterial information) should be cut down and the annual report should present a clear picture of the company.
3. The audience for the annual report should be identified by the company. This will help in proper flow of communication.
4. The company shall explain regarding matters that are good and bad. If window dressing of the bad information is done, it will spoil the reputation of the company.
5. Tables and charts must be used to present data. It saves 1000 words. This way, only necessary and relevant information is passed to the stakeholders.
6. A logical layout and a minimum of duplication will contribute to the clarity of an annual report.

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