
A Study of Understanding the Perception of Stakeholders on Narrative Reporting

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INTRODUCTION:

In this chapter, focus is on the perception of annual report users (such as share holders, investors, government, employees, society, suppliers, creditors, academicians, researchers), regarding what they think and how they are influenced by the narrative reporting published by the preparers of annual report. Basically Annual Reports are prepared to communicate all the factual of the organization to its stakeholder. Such communication is pivotal to build up trust through transparency, confidence through true & fair disclosure and hope through growth & prosperity among the stakeholders. Hence, along with numerical data -- explanation of such numerical data in terms of narration enhances the communication in an effective way and reduces the communication gap between preparers and users of Annual Reports. In addition, voluntary accounting information in narrative form apart from statutory requirement also enhances the effectiveness of the narrative reporting. In order to communicate effectively, preparers of annual report have to frame well written, honest, clear and concise report; so that they can discharge their obligation to the users of accounting information regarding leadership over the market, appraising past performance and projecting future opportunities with ease (Subramanian, Insley, and Blackwell (1993) and Kohut and Segars (1992)). Now a day, there is immense need of accounting information from various users of accounting information on one hand, on the other hand preparers use technology such as internet based financial reporting, to cater and satisfy such needs in a most relevantly and timeliness manner. It results in broadcasting of various reports, such as: Annual Report, Sustainability Report, CSR report, press release, etc of company specific, became easy and far reaching and for the users such reports are accessible and available at low cost (download). Hence, there is huge accounting information available to the stakeholder now. More than anything else, the Internet has expanded the amount of information available to investors. In October 18, 1999 speech, Securities and Exchange Commission (SEC) Chairman Arthur Levitt said: The behind-the-scenes feeding of material non-public information from companies to analysts is a stain on our markets. This selectiveness is a disservice to investors and it undermines the fundamental principle of fairness. . . .I appeal to companies, in the spirit of fair play: make your quarterly conference calls open to everyone, post them on the Internet.

It is true that annual reports are prepared keeping shareholders in the mind by the preparers of annual report, which is evident from the fact that, in maximum annual report Director address to the shareholders. The reason behind such is (or may be) share holders provides largest chunk of

capital to the company. So it becomes more of an obligation rather than a responsibility to address to the shareholders welfare in terms of dividend payout, their wealth maximization, and prospective earnings per share (EPS). Moreover in this changing era role of institutional investors are also significant, as a result of which individual investors, who are scattered and weak, their needs are sometime overlooked. As a result of which, annual report is unable to serve the purpose of individual shareholder (Epstein & Pava). However, a preparer of annual reports become more concerned about satisfying institutional investor demands, hence lesser interest are shown in meeting the individual investor demands. For example Lev (1992) reflects such transformation and noted that:

Mangers may be interested in a large institutional ownership since it generally proves a ready market for new stock or bond issues. Furthermore, demand for the firm's securities can be more readily enhanced by providing specific, tailor-make information to a few large investors than to many small geographically scattered, and largely uniformed shareholders" (p.19)

According to Kohut and Segars (1992), annual report is the vehicles through which management discharges its obligation of providing information about their leadership over the market, appraising past performance and projecting future opportunities. In addition, Subramanian, Insley, and Blackwell (1993) have convincingly argued that a well written, honest, clear, and concise annual report can enhance investors' trust and confidence in corporate management. So this chapter explores whether well-written and well-framed annual report with the context of true and fair view is capable to quench the information need of annual report users. At this backdrop following objective were set.

The most pertinent question that arises is: are they really satisfied by the information given in the annual report? Do size and volume of the accounting information satisfy the users of annual report?

OBJECTIVE:

1. To study the stakeholders' perceptions regarding the annual report published by the company.
2. To study the stakeholders' satisfaction from the annual report published by the company.

SURVEY OF LITERATURE:

Due to technological advantage and its enormous reach with a blink, makes the world small and within everyone's reach. One of the tool of such technological advancement is internet. Nowadays company makes proper use of internet to report its financial performance over company's web page. A numerous studies were done over the years on the Internet Financial Reporting (IFR) in USA, UK and other European Countries, for example: New Zealand (Oyeler et al., 2003; Fisher et al., 2004), Australia (Lodhia et al., 2004; Chan and Wickramasinghe, 2006), Canada (Trabelsiet al., 2004; Trabelsi, 2007) and Japan (Marston, 2003). Studies also shows that there is increasing popularity of Internet Financial Reporting (IFR) among the stakeholders; as stakeholder find internet based financial reports complete, useable, timeliness, accessible and also provides reliable information in comparison to traditional paper based financial reporting (Jain et al, 2013). In a contrast a particular study done in Jordan, made an inference where majority of the users does not depends on IFR solely rather use the traditional printed annual

report for decision making, authors used questionnaire method to find out the perception of user of financial report through internet in Jordan (Al-Htaybat, et al., 2011). Some of the studies which deal with stakeholders perceptions on IFR and annual report are discussed below.

Baird, Jane. E., & Zelin, Robert C. (2000) in their paper “The Effect of Information Ordering on Investor Perceptions: An Experiment Utilizing President’s Letters” concludes that the ordering of the good news and bad news in the qualitative sections of an annual report can influence the perception of investors. According to them investors rely on the first information they read when accessing past and future potential financial information for taking decision. Moreover, they also conclude that perception of the investors can also be influenced by corporate presentation strategies.

Abdelkarim, N. et. al. (2009), in their paper “Investors Perception of Information Disclosed in Financial Reports of Palestine Securities Exchange Listed Companies” made an empirical study to explore the perception of users regarding the availability, adequacy, and usefulness of information disclosed in the financial reports of companies listed on the Palestine Securities Exchange (PSE). Result of the study demonstrated that the user’s perceptions towards the financial information provided by the companies are inadequate, insufficient and irrelevant for making investment decision, as the companies enlisted in PSE did not comply with minimum disclosure requirements of international standard.

Khan, Md. N. A. A and Ismail, N. A.(2012), in their paper “Users’ Perceptions of Various Aspects of Malaysian Internet Financial Reporting” draw an inference on the benefits, factors, advantages and disadvantages of IFR from the perspective of corporate annual report users. The authors made an empirical study in Malaysia to concluded that IFR is advantages to company as it can attract the fund from all over the globe, IFR is advantages to the users as obtaining financial information is quick, easy and efficient and lastly as IFR avail the respondents with increased information and analysis at the same time also suffers from security problems.

Khan, Md. N. A. A. and Omar, N. A (2013)in their paper “Perception of Auditors in Malaysia on the Important Items of Internet Financial Reporting” explores the perception of auditors in Malaysia regarding important items of content and presentation in IFR. In their paper they found that five most important items of disclosure are income statement of current year, income statement of past years, cash flow statement of current year, notes to financial statement of current year and balance sheet of current year. They also conclude the perception of auditors and rank them based on the importance of the items presented in the content disclosure of IFR.

Nyor, T. (2013), in his paper “Financial Reporting Quality of Nigeria Firms: Users’ Perception”, explores the perception of users of annual report of Nigerian firms towards understandability, relevance, consistency, comparability, reliability, objectivity and completeness of accounting information, he concludes that accounting information of such firms are moderate in nature and they (preparers of annual report) should thrive to achieve higher financial reporting quality.

Epstein Marc. J & Pava Moses L. (___), in their paper “Individual Investors’ Perception on the Summary Annual Report: A survey Approach” summarize that the annual report as issued are difficult for the shareholder to understand. One out of every 4 investors reported that annual report are so complex to understand that they were of no substantial help in taking or making investment decision.

It is evidential from the above survey of literature that some work had been done on perception analysis of stake holder on disclosure practices in various countries and various industries, where they concluded that perception of investors can be influenced by ordering of the good news and bad news whereas in Palestine investors not at all rely on the information provided by the annual report. In another study due to internet financial reporting huge amount of fund from all over the world can be attracted on the other hand some researchers concluded that IFR are moderate and some concluded as complex to understand and not at all significant to take investment decision. Hence it is difficult to conclude the perception of stakeholder regarding narrative accounting practice, therefore the study is conducted to understand the perception of annual report users on narrative accounting practice in India, which creates the scope to work.

HYPOTHESIS:

H₀: Stakeholders holds a positive perception towards the narrative reporting

H₁: Stakeholders does not hold a positive perception towards the narrative reporting

METHODOLOGY:

In this study a sample population of 177 respondents were chosen out of which 100 replied back, which consist of students, academicians, employees of stock exchange, and members of ICAI. To get the better perception of the stakeholder all over the country the questionnaire is served to the respondents through the internet. The questionnaire consists of 14 questions related to narrative accounting and satisfaction of stakeholders. To analyze the primary data, responses were collected through Likert's Five point scale, where one is assigned for disagree and five for strongly agree. Then statistical tool like simple average and graphs are used.

Findings:

1. Significance of Numerical Information:

Response	No. of Respondent	Percentage
Strongly Disagree	0	0
Disagree	20	20
Uncertain	10	10
Agree	50	50
Strongly Agree	20	20

- In this digital era, numerical information plays significant role especially in the corporate world, such as dividend payout, earning per share, market value of share, profit and loss of a particular period and so on. The evidence of 'numerical information's significance' can be seen in the work of Auditor, where Chartered Accountant put special attentions on the numerical information of Annual Reports.
- Similar view is also put on by the respondent where 70% of the respondent agree (out of which 20% of respondent strongly agrees) to the fact that numerical information plays a significant role in decision making, and only 20% disagree to the fact.

2. Significance of additional information:

Response	No. of Respondent	Percentage
Strongly Disagree	10	10
Disagree	10	10
Uncertain	30	30
Agree	30	30
Strongly Agree	20	20

- Additional Information or voluntary information under Companies Act 2013 plays a significant role, as they communicate more than what is required by statute, which builds up the trust and confidence. Information such as social, environmental, risk and forward looking information—genuinely assist investors to understand the company well
- The perception of respondent are 20% strongly agrees and 30% agrees that additional information should be by the part of the annual report which build up the trust and confidence, on the other hand only 10% strongly disagree and 10% disagree about the fact, they believe it might or will be adding to the volume of information and not very useful.

3. Significance of additional information in narrative form:

Response	No. of Respondent	Percentage
Strongly Disagree	0	0
Disagree	20	20
Uncertain	10	10
Agree	50	50
Strongly Agree	20	20

- Narrative accounting enhanced investors understanding, improved governance and Board’s effectiveness; and improved relationship with key stake holders; provides transparency; etc. Under Companies Act 2013, narrative reporting is very significant.
- Similar statistic is shown by the respondent, where 70% of respondent agrees (out of which 20% strongly agrees) to the fact that narrative accounting plays a key role to build confidence and trust in improving governance, effectiveness of Board and enhance transparency and accountability. On the other hand only 20% disagree to the significance of narrative reporting in annual reports.

4. Narrative reporting helps to take investment decision:

Response	No. of Respondent	Percentage
Strongly Disagree	10	10
Disagree	00	00
Uncertain	00	00
Agree	40	40
Strongly Agree	50	50

- It is certain that Companies Act 2013, was introduced not only to cater the needs of the domestic annual report users but also to meet the global need as the economic and business environment of our country changes significantly due to the result of globalization. At the same time narrative reporting enhances the reporting framework to build trust and confidence among investors regarding investment decisions.
- Amazingly, 90% of the respondent agrees (out of which 50% of the respondent strongly agree) to the fact that narrative reporting plays a vital role in making decision regarding investments, on the other hand 10% respondent holds an opposite view.

CONCLUSION:

Since inception of “Double Entry System” narration plays a vital role to explain the meaning of the numerical value or transaction, till date the significance of such narration exist. To be more correct the importance of narrative reporting has increase many folds, especially under Companies Act 2013. Narrative reporting not only explains the meaning of the numerical values and its rise and fall but also provides voluntary information, such as: social, environmental, risk, forward looking information, intangibles, etc. Narrative reporting practices also plays significant role to assist investors and potential investors to take investment decision confidently. The finding shows that majority of the respondent (i.e. 70%) perspective is that numerical information such as income statement, positional statement and cash flow statement, etc. plays very vital role in annual report and such information helps the investors to take investment decision confidently. 50% of the respondents’ agree that additional information plays a vital role in annual report and only 20% disagree to such fact. The significance of additional information in narrative form was supported by 70% of the respondent, where they agree that such supplementary narrative information enhances the trust, confidence in users and accountability on the part of the preparers. Amazingly about 90% of the respondents perceive that narrative reporting assist the investors and potential investors to take investment decision. Hence, it can be concluded that stakeholder holds a positive perception towards narrative reporting i.e. rejecting the alternative hypothesis and accepting the null hypothesis.

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