

THE IMPACT OF FINANCIAL REPORTING ON INVESTOR DECISION MAKING

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**UGANDA CHRISTIAN
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DECLARATION

I, KASIBE EDGAR ERIAZALI declare that this research report is my original work and has not been submitted to any other university or institution of higher learning for any academic award.

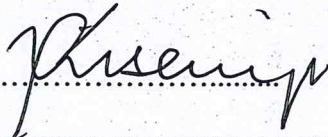
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APPROVAL

This is to certify that this research report written by KASIBE EDGAR ERIAZALI under the topic "The Impact of Financial Reporting on Investor Decision making" has been done under my supervision as a university supervisor and submitted to the School of Business with my approval.

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Date:

31/08/2023

MR. KISENYI VINCENT (RESEARCH SUPERVISOR)

DEDICATION

I would like to dedicate this research work to the Lord Almighty who has protected, guided and sustained my life in making it possible for me to reach this far. Secondly to my parents and friends for their support, sacrifices and prayers.

ACKNOWLEDGEMENT

First and foremost, I would like to thank the Almighty God for seeing me through the entire course and more so this research. Secondly, I thank and grace my dear Father and mother, Eng. Wilson Kafifi and Mrs. Peruth Niwayesiga for mentoring, encouraging and enabling me have this opportunity to attain academic qualifications.

Special gratitude goes to Mr. Kisenyi Vincent (Dean School of Business, UCU and Research Supervisor), for his tireless support through assistance, knowledge, inspiration and guidance at all stages of this project that enabled me complete it successfully.

I thank all my lecturers at Uganda Christian University Mukono from whom I have learned much throughout my training in my field of study.

I also acknowledge everyone who played a role in my academic accomplishments.

Thank you all and may the good Lord bless you abundantly!

ABSTRACT

The study was to establish the relationship between financial reporting and Investor decision making. The study was underpinned by the agency theory and stakeholder theory. The objectives were to find out the relationship between reliability of financial reports and decision making, to find out the relationship between timeliness of financial reports and decision making and, to find out the relationship between understandability of financial reports and decision making.

The study took on the cross-sectional case study design where both qualitative and quantitative methods approach were used to collect and analyze data. The targeted study population was 50 out of which a sample of 44 was selected using purposive and census techniques. A total of 38 responses were got (86.4% response rate).

Data was collected using the questionnaires, interview guide and analyzed using Statistical Package for Social Scientists (SPSS) and content and thematic analysis for quantitative and qualitative data respectively. The findings revealed that there is a significant relationship between timeliness of financial reports and decision making, and a strong significant relationship between understandability and decision making.

The study however revealed that there is an insignificant relationship between reliability of financial reports and decision making. The study concluded that timeliness and understandability of financial reports have a direct linkage with decision making. The study recommends that for the investors to improve in decision making there is need to have timely and understandable financial reports. The study further recommends that the investors should be trained to acquire necessary skills to help understand the financial reports so they make informed decisions

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LIST OF ABBREVIATIONS AND ACRONYMS

A: Agree

AAA: American Accounting Association

ANOVA: Analysis of Variance

CVI: Content Validity Index

D: Disagree

FASB: Financial Accounting Standards Board

GASB: Government Accounting Standards Board

GFOA: Government Finance Officers Associations

IAS: International Accounting Standards

IASB: International Accounting Standards Board

IFRS: International Financial Reporting Standards

K: Number of questions in the questionnaire

μ : Mean

M&E: Monitoring and Evaluation

N: Not sure

No.: Number

r: Pearson's linear correlation

R square: The proportion of total variance

SA: Strongly Agree

SD: Strongly Disagree

σ^2_i : Standard deviation square (variance) for each individual item

σ^2_t : Variance for the total items in the questionnaire

Std: Standard

σ : Standard Deviation

Sig: Significance

SMEs: Small and Medium Enterprises

SPSS: Statistical Package for Social Scientists

UNDP:UnitedNationsDevelopmentProgram

CHAPTER ONE:

INTRODUCTION

1.0 Introduction

This chapter involves the background of the study, statement of the problem, purpose of the study, the specific objectives of the study, research questions, scope of the study, area of the study, time frame of the study, significance of the study and the possible limitations to the study.

1.1 Background of The Study

Financial reporting serves as a critical channel for companies to communicate their financial performance, position, and prospects to external stakeholders. It plays a fundamental role in facilitating the efficient allocation of capital and enabling investors to make informed decisions (Russo, 2022). The quality of financial reporting, therefore, has significant implications for investor decision making and the overall functioning of capital markets. The importance of financial reporting has been underscored by a series of high-profile accounting scandals that have rocked the business world. One such example is the Enron scandal, which unfolded in 2001 (Segal, 2023). Enron, once regarded as a leading energy company, collapsed due to fraudulent accounting practices and the manipulation of financial reports. The scandal revealed the substantial gap between the reported financial performance and the actual financial condition of the company. Similarly, the case of WorldCom, another prominent scandal in 2002, involved the intentional inflation of earnings through accounting manipulations, leading to the eventual bankruptcy of the company (Hayes, 2022).

These scandals not only resulted in substantial financial losses for investors but also severely damaged investor confidence and trust in financial reporting. The repercussions of such events extended beyond the affected companies, impacting the broader economy and financial markets. They highlighted the urgent need for enhanced financial reporting standards, increased transparency, and strengthened corporate governance mechanisms to protect the interests of investors and restore confidence in the financial system. In response to these challenges,

regulatory bodies and standard-setting organizations around the world have made efforts to improve financial reporting practices.

The International Financial Reporting Standards (IFRS) developed by the International Accounting Standards Board (IASB) and the Generally Accepted Accounting Principles (GAAP) issued by the Financial Accounting Standards Board (FASB) in the United States are examples of frameworks aimed at enhancing the quality and comparability of financial information (Johnson, 2023). Understanding the impact of financial reporting on investor decision making is crucial for multiple stakeholders. Investors and financial analysts rely on financial reports to assess investment opportunities, evaluate risks, and determine fair value.

By investigating the relationship between financial reporting and investor decision making, this dissertation aims to contribute to the existing literature and provide insights that can inform practice and policy. It aims to advance our understanding of how the quality of financial information influences investor perceptions, judgments, and subsequent investment decisions. The findings of this study can help guide policymakers, standard-setters, regulators, and investors in improving financial reporting standards, practices, and decision-making processes to enhance the transparency and reliability of financial information and ultimately foster efficient capital.

1.2 Statement of The Problem

According to Brown and Hillegeist (Hillegeist, 2007), financial and accounting literature provide evidence that the quality of financial information increases volume of investment. It is evident that investors and analysts seek disclosures of forward-looking information, such as performance projections, and they tend to invest in and provide coverage of companies that have more forthcoming disclosure policies, (Bipin Ajinka, 2005). Financial reporting plays a crucial role in shaping investor decision-making and market efficiency. However, the existing literature provides mixed evidence on the relationship between financial reporting and investor decision-making. This knowledge gap necessitates further exploration and understanding of the mechanisms through which financial reporting affects investor decision-making. This dissertation aims to investigate the impact of financial reporting on investor decision-making and the underlying factors that mediate or moderate this relationship. By addressing this research gap,

the study will contribute to the accounting and finance literature and provide valuable insights for investors, regulators, and policymakers in enhancing financial reporting practices and market transparency.

1.3 General Objective

The main objective of the study is to find out the impact of financial reporting on Investor Decision-Making.

1.4 Specific Objectives

- To find out the relationship between reliability of financial reports and decision making.
- To find out the relationship between timeliness of financial reports and decision making.
- To find out the relationship between understandability of financial reports and decision making.

1.5 Research Questions

- What is the concept of financial reporting and what are its key components?
- How does financial reporting affect investor decision making?
- What factors influence the relationship between financial reporting and investor decision making?
- What recommendations can be made to improve financial reporting practices and enhance investor decision making?

1.6 Significance of The Study

This dissertation holds significant implications for various stakeholders in the financial reporting ecosystem. First and foremost, it contributes to the academic literature by providing empirical evidence on the relationship between financial reporting and investor decision making. By exploring the impact of financial reporting on investors' perception of a company's financial performance and future prospects, this study enhances our understanding of the role financial reporting plays in capital markets.

Furthermore, this research has practical implications for regulators, standard setters, and policymakers. By identifying the factors that influence the relationship between financial reporting and investor decision making, this study can inform the development of regulations and accounting standards that promote transparency, comparability, and relevance of financial information. It can also guide the efforts to improve financial reporting practices, ensuring that companies provide accurate and reliable information to investors

1.7 Conceptual Framework

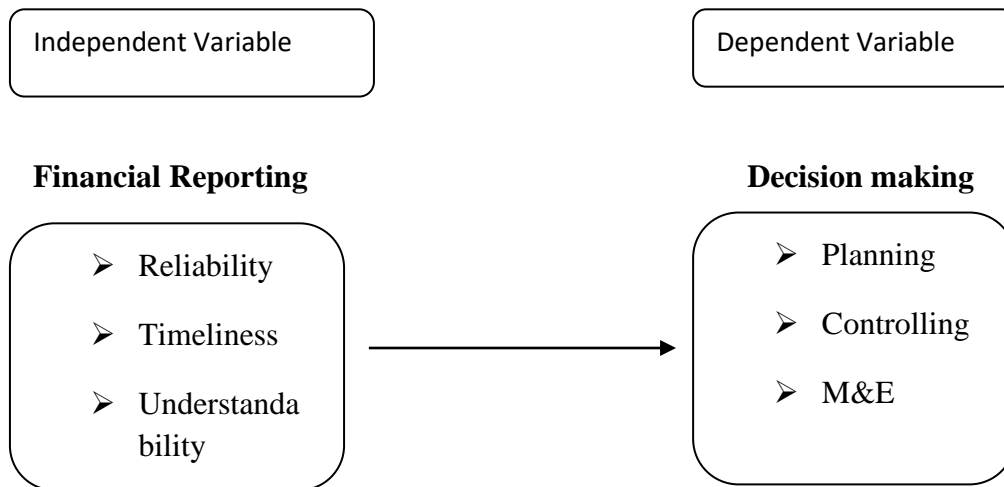


Figure 1 : Conceptual framework showing the relationship between financial reporting and decision making.

Source: Developed basing on financial accounting standards board (2014) and Saaty (2008).

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provides a comprehensive review of the existing literature on the impact of financial reporting on investor decision making. It explores the conceptual framework of financial reporting quality, the measures used to assess it, and the empirical studies that have examined its relationship with investor behavior. The literature review aims to synthesize the key findings, identify research gaps, and lay the foundation for the subsequent analysis in this dissertation.

2.2 Conceptual Review

2.2.1 Definition of Financial Reporting Quality

Financial reporting refers to the degree to which a company's financial reports accurately and transparently reflect its true financial position, operating performance, and cash flows. It encompasses the reliability, relevance, accuracy, transparency, and completeness of the financial information disclosed by a company in its financial reports. High-quality financial reporting provides users of financial reports, including investors, creditors, and other stakeholders, with reliable and decision-useful information to assess the company's financial health, make informed investment decisions, and allocate resources efficiently.

2.2.2 Reliability of Financial Reports and Decision Making

According to International Financial Reporting Standards (2003), reliability is concerned with financial reports that are free from material error and bias and comply with the known reporting frameworks such as the International Accounting Standards/ International Financial Reporting Standards (IFRSs/IAS). Hans Hoogervorst, the incoming chair of the IASB said in a speech to a European commission conference on 9th February 2011 that financial reports should contain information that is as unbiased and reliable as possible. The IFRS body set standards that SMEs should follow in 2009. These standards highlight the fact that financial reports must be of high quality and acceptable to all users. According to Lempert (2013) the best way to improve decision making is by guidance got from reliable financial reports ensured by complying with

the acceptable financial reporting framework. The IFRS for SMEs (2009) further suggested accuracy as one of its objectives that enables users of financial information to make economic decisions. It clearly highlights what content is necessary in every financial report. Investors and creditors feel confident when they are making right decisions and dependable financial material is always key to decision making process. Unreliable financial reports can be very risky. E.g., if an organization is sold, the approved sale price can be significantly modified when real results reveal a financial position which is changing with financial reporting on which the original price was founded. Organizations may have harder time regulating their costs, getting investors or paying higher interest rates as users may realize the in-built risks in depending on financial reports which are not based on any standard framework like the IFRS.

2.2.3 Understandability of Financial Reports and Decision Making.

“Understandability necessitates the information presented in financial reports to be concise, complete and clear” (Lempert, 2013). Managers and other executives should understand financial information in financial reports. The IASB highlights understandability of financial reporting standards based on clearly articulated principles. According to Lempert, (2013) “for financial reports to be understandable, they ought to be; Complete: the text presented should include all key information. And Concise: do not conceal the users of financial information with an undue amount of detail”. It implies presenting an adequate amount of information which is easily scanned for highlights.

2.2.4 Timeliness of Financial Reports and Decision Making.

Timeliness was recognized as one of the features of information in financial reporting in Concepts Statement No. 1 of the Governmental Accounting Standards Board (GASB), Objectives of Financial Reporting. To achieve this objective, financial reports should be available in time to help in decision making. Thus, must be published as soon as possible after the end of a reporting period. “This function is desired as information presented is usually relevant to users’ delay in provision of information attempts to render it less pertinent to the decision-making requirements of users” (IASB, 2003). Timeliness of accounting information is highlighted in IAS 10 events. After the reporting period which necessitates organizations to state all important post balance sheet proceedings which happen up to the date when they are official

to be issued out. This confirms that users are informed of any substantial transactions and actions which occur after the reporting period when financial reports are issued other than waiting for the next set of financial reports for this information.

2.2.5 Decision Making.

Decisions include numerous intangibles which must to be traded off. “To do this, they should be assessed together with tangibles whose dimensions should be measured as to how well they serve the objectives of the decision maker” (Saaty, 2008). It validates the thinking we use for making better decisions transparent in its features. Managers are often requested to make decisions which help the organization’s capital work harder or reduce overhead costs. “Familiarity with these elementary forms of financial reports and the ability to understand the numbers is essential to sound business decision making” (University, 2016). For instance, the cash flow statement is one of the documents for making managerial decisions. It informs managers if the organization has money to pay its bills in short or long term. Decision making is very vital in every organization and is often guided by the organization’s financial reports (Chand, 2006).

According to Saaty 2008, decision making has an analytic hierarchy process which involves the following steps;

- I. Define the problem and determine the kind of knowledge sought
- II. Structure the decision hierarchy from top with the goal of the decision, then the objectives from a broad perspective through the intermediate levels to the lowest levels.
- III. Construct a set of pair wise comparison matrices. Each element in an upper level is used to compare the elements in the level immediately below with respect to it.
- IV. Use the priorities obtained from the comparison to weigh the priorities in the level immediately below. For each element in the level below, add its weighed values and obtain its overall goal or global priority.

It is from these steps that we realize Saaty (2008) argues that decision making involves planning, controlling and monitoring and evaluation.

2.2.5.1 Planning

“In this case the researcher will focus on financial planning which refers to the task of determining how the business will afford to achieve its strategic goals and objectives” (Tham, 2008). This involves budgeting and making financial plans which describes each activity, material and resources that are needed to achieve these objectives. According to Tham 2008, analyzing of financial reports guides management while making plans and budgets as they do it in reference with the information given therein such as the cash flow statement. “A good business manager can see possibilities for growth and efficiencies behind the numbers of a balance sheet and consequently decide on the plan for the organization” (University, 2016). It is therefore important that management gets proper financial reports to guide this.

2.2.5.2 Controlling

It is the process of regulating activities so that actual outcomes conform to standards. It starts by the business identifying what those costs are and evaluate whether the costs are reasonable and affordable. The income statement is the document that often guides the manager on this kind of operation as it shows the operating expenses and costs on goods and services. Companies often want to keep close track of expenses so they allocate resources more strategically (Ohio University 2016). Shareholders need to be assured that their resources are being used efficiently and effectively in providing the right service at the least cost.

2.2.5.3 Monitoring and Evaluation

“Evaluation applies the lessons and recommendations to decisions about current and future programs. It has other purposes that include; enhancement of organizational and development learning, ensuring decision making and support substantive accountability and repositioning” (UNDP, 2005).

2.3 Theoretical Perspectives on Financial Reporting Quality

This subsection delves into the theoretical frameworks that underpin the concept of financial reporting quality. It explores agency theory, signaling theory and stakeholder theory to understand the motivations and incentives for companies to produce high-quality financial reports.

2.3.1 Agency Theory

According to agency theory, conflicts of interest may arise between agents and principals due to information asymmetry and self-interest (Kopp, 2023). Financial reporting serves as a mechanism to mitigate these conflicts by reducing information asymmetry and aligning the interests of agents with those of principals. High-quality financial reporting provides shareholders with reliable and transparent information, enabling them to monitor managerial actions, make informed decisions, and hold managers accountable for their stewardship of company resources.

2.3.2 Stakeholder Theory

According to this theory, financial reporting should not only serve the interests of shareholders but also address the informational needs of other stakeholders (Phillips, 2011). High-quality financial reporting enhances stakeholder trust, transparency, and accountability by providing comprehensive and reliable information about a company's financial performance, financial position, and its impact on various stakeholders. It recognizes that financial reporting plays a vital role in fostering stakeholder engagement, corporate social responsibility, and sustainable business practices.

2.3.3 Signaling Theory

According to Signaling theory (Certo, 2010), financial reporting serves as a signal of a company's underlying economic fundamentals and management quality. According to this perspective, high-quality financial reporting acts as a credible signal of a company's financial health, future prospects and managerial competence. It enables companies to differentiate themselves from competitors, attract investment capital, and reduce information asymmetry with investors. By providing transparent and reliable information, high-quality financial reporting enhances the company's reputation and credibility, signaling its commitment to good corporate governance and value creation

2.4 Key Definitions in The Researcher Study

2.4.1 Financial report

It refers to the preparation of financial reports like the balance sheet, income statements, statement of cash flows and statements of owners' equity in a manner that follows the financial reporting standards

2.4.2 Reporting Quality

According to Nemit (Shroff, 2015), reporting quality is defined as the extent to which financial reports reflect the underlying economic performance of a company, and reporting credibility as the faith investors have in the accuracy of the financial reports presented to them.

2.4.3 Investor

According to Ali (Hassain, 2023), an investor is any person or other entity (such as a firm or mutual fund) who commits capital with the expectation of receiving financial returns.

2.4.3 Investor-Decision

An investor decision is a well-planned action that allocates financial resources to obtain the highest possible return. This decision is made based on investment objectives, risk appetites and nature of investor. (Hassain, 2023)

2.4.5 Information Asymmetry

Information asymmetry refers to a situation where one party in a transaction has more information than the other party. Financial reporting plays a crucial role in reducing information asymmetry between companies and investors.

2.4.6 Valuation Model

Valuation models are used by investors to estimate the intrinsic value of a company's securities. Financial reporting influences valuation models by providing reliable and relevant financial information as inputs for the valuation process.

2.4.7 Risk Assessment

Risk assessment involves evaluating the potential risks associated with an investment decision. Financial reporting impacts risk assessment by providing investors with reliable and transparent information about a company's financial position, liquidity, leverage, and operational efficiency.

2.5 General Methodology of The Financial Reporting Process

2.5.1 Collect and Record Financial Data

The process begins by gathering all relevant financial information, including transactions, receipts, invoices, bank statements, and other supporting documents. This data is recorded in the organization's accounting system.

2.5.2 Prepare Financial Reports

Financial reports are the primary output of the financial reporting process. The main statements include the balance sheet, income statement, cash flow statement, and statement of changes in equity. These statements summarize the financial performance, position, and cash flows of the company during a specific period.

2.5.2.1 Types of Financial Reports

The types of financial reports are categorized into several categories. The following is a review of the type of financial reports (Matar, 2006);

- **Income statement:** A statement or financial report showing the results of an entity's operations, including the entity's revenues and expenses, the difference between which represents the net profit or loss over a given period of time.
- **Statement of financial position:** A financial report that shows the financial position of the entity including the assets and liabilities of the entity, as well as equity at a specific date through this list, the company's assets and liabilities are recognized. The size of the Company's cash, liquidity and ability to meet its obligations are also analyzed.
- **Statement of changes in equity:** Statement of changes in equity is the link between the statement of income and the statement of financial position. it is determined by

monitoring and tracking changes in equity items from the beginning to the end of the financial period, and are presented on an accrual basis.

- **Statement of Cash Flows:** This is a statement or financial report showing all cash inflows and outflows from a business over a specified period of time and classified according to operational, investment and financing

2.5.3 Analyze and Interpret Financial Data

After preparing the financial reports, the data is analyzed and interpreted to assess the company's financial health, profitability, liquidity, and other relevant aspects. Financial ratios and other analytical tools may be used to gain insights into the company's performance and identify areas for improvement.

2.5.4 Conduct Internal Reviews, Audits and Obtain Approval

Internal reviews and audits are conducted to ensure the accuracy and reliability of the financial reports. This involves a comprehensive review of the financial data, internal controls, and processes. Ensure compliance with accounting standards, financial reporting must comply with relevant accounting standards, such as Generally Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS), (IASB, 2003). The financial reports should adhere to the specific guidelines and principles outlined in these standards. Any discrepancies or errors identified during this stage are corrected and resolved. Before the financial reports are finalized and released, they typically require approval from the organization's management or board of directors. This ensures that the financial information is accurate, complete, and consistent with the company's financial activities. Once approved, the financial reports are disclosed to various stakeholders, including shareholders, investors, lenders, regulatory authorities, and the general public.

2.5.5 Investor Decision-Making

The investor decision-making process typically involves several key steps. While individual investors may have different approaches and strategies, here is a general framework for the investor decision-making process.

2.5.6 Importance of Investor Decision Making

According to (Yieldstreet, 2023), sound investor decision making is fundamental to ensuring growth and profitability. It is important to recognize that “do-overs” generally do not exist when it comes to investing. However, carefully considered portfolio asset allocation can serve to minimize risk and help achieve the desired objectives.

2.5.7 The Process of Investor Decision-Making

According to (Yieldstreet, 2023), the process of investor decision-making is as follows;

- **Define Investment Goals**, the first step is to determine your investment objectives and goals. Clear goals help guide your investment decisions.
- **Risk Assessment**, this involves evaluating your risk tolerance and understanding how much risk you are willing and able to take with your investments.
- **Asset Allocation**, determine the appropriate asset allocation based on your goals and risk tolerance. The allocation should be diversified to reduce risk and optimize potential returns.
- **Research and Analysis**, conduct thorough research on investment opportunities. This includes analyzing financial reports, studying market trends, and assessing the performance and prospects of individual companies or assets.
- **Investment Strategies**, develop an investment strategy that aligns with your goals and risk tolerance. Some common strategies include value investing, growth investing, income investing, and momentum trading.
- **Portfolio Construction**, build a portfolio of investments based on your asset allocation and investment strategy. Consider diversification across different sectors, geographies, and investment types to spread risk and potentially enhance returns.

2.5.8 Measures of Investment Evaluation Criteria

There are three steps involved in the evaluation of an investment; estimation of cash flows rate and inflows, estimation of the required rate of return as well as the opportunity cost of capital and Application of aspersion rule for making the choice

A number of capital budgeting techniques are in practice. They may be grouped in the following two categories;

1. Discounted cash flow (DCF)
2. non-discounted cash flow (NDCF)

In view of Colin Darury (2004), by discounted cash flow techniques and calculating the NPV, IRR, PI, PB, ARR.

- i. **Net Present Value Method:** This method is the present value of the net cash inflow less the project's initial investment out lay if the rate of return from the project is greater than the return from an equivalent risk investment in financial market, the NPV will be positive. Alternatively, if the rate of return is lower, the NPV will be negative. A positive NPV indicates that an investment should be accepted, while a negative value indicates that it should be rejected. Thus, zero NPV indicates that firm should be indifferent to whether the project is accepted or rejected. The NPV can be expressed as;

$$NPV = \frac{FV_1}{(1+k)^1} + \frac{FV_2}{(1+K)^2} + \frac{FV_3}{(1+K)^3} + \dots + \frac{FV_n - I_0}{(1+K)^n}$$

- ii. **Internal Rate of Return (IRR):** This represents the true interest rate earned on an investment over the course of its economic life. The interests rate “K” that when used to discount all cash flows resulting from all investment will equate the present value of the cash receipts to the present value of the cash outlays. In other words, the discount rate causes the net present value of an investment to the zero.
- iii. **Profitability Index (PI):** The third method of evaluating investment proposals also takes into account the time value of money. This is the ratio of the present value of cash inflows at the required rate of return, to the initial cash outflow of the investment. In situations where the PI is greater than one, the investment should be accepted, whereas it is less than one, the investment should be rejected, in cases

where the PI is equal to one the investment may be accepted, the formula for calculating PI is as follows.

$$\text{PI} = \frac{\text{present value of cash inflows}}{\text{Initial cash outlay}}$$

Initial cash outlay

- iv. **Pay Back (PB):** This is one of the simplest and most frequently used methods of capital investment appraisal. It is defined as the length of time that is required for the cash proceeds from an investment to recover the original cash outlay required by the investment. If the cash flows from the investment is constant each year, the payback period can be calculated by dividing the total initial cash outlay by the amount of the expected annual cash proceeds. But if the expected proceeds are not constant from year to year, the payback period is determined by adding up the cash inflows expected in successive year until the total is equal to the original outlay. It is calculated by

$$\text{PB} = \frac{\text{Initial investment}}{\text{Annual cash inflow (annuity)}}$$

Annual cash inflow (annuity)

- v. **Discount Payback Period:** This is the number of periods taken in recovering the investment outlay on the present value basis of which the discounted value is then used to calculate whether an investment is likely to be profitable, but it cannot estimate how profitable the investment will be.
- vi. **Accounting Rate of Return (ARR):** This is also known as return on investment (ROI), is the ratio of the average after tax profit divided by the average investment. The average investment would be equal to half of the original investment if it were depreciated constantly. Alternatively, it can be found out by dividing the total of the investment's book values after depreciation by the life of the project. The ARR can be determined by the following equation

$$\text{ARR} = \frac{\text{Average income}}{\text{Average investment}} \times 100$$

Average investment

2.6 The Role of Financial Reporting in Investment Decision

The aim of financial reporting is to provide financial information about an entity to interested parties. The information contained in the reports; however, it can only become meaningful through financial interpretations derived from the analysis of the reported data. These interpretations and decision unveil the essence of financial reports as the major custodian of financial information necessary for any investment decisions. Investment decisions are not made on a vacuum hence; there are bedrocks on which they will stand. One major tool for these investment decisions is the ratio analysis. Ratio analysis is the judgmental process which aims at evaluating the current and past financial positions and the results of an entity the primary objectives of determining the best possible estimate about the future conditions and performances. It provides a quick diagnostic look at an entity's financial health and trigger off subsequent financial and operational analysis. (Okwoli,1992) from the foregoing, the figures that are used in the financial analysis are being dedicated from the financial reports which in turn inform our investment decisions.

Several ratios exists but this research work will only X-ray the major ones that are used in investment decision and the major issue to note here is that financial reports are the major source of the raw materials for the investment decisions. Simply put by U.S Gavtan (2005) it is a process of determining and interpreting the relationship between the items of financial report to provide a useful understanding of the performance, solvency and profitability of an enterprise. More so, for ratio to be useful investment decision, it must be compared with earlier periods to indicate trends or compared with similar organizations in the industry to determine strengths and weaknesses ideally compared with the industrial average.

2.7 Types of Ratios Used.

The ratio analysis involves comparison of useful interrelated figures over a number of years to establish a trend. In assessing the financial report of any particular firm, banks try to know how the firm had been operating over the last three years from the answer they get by using ratio analysis they would then be able to know whether things are going well with the firm. In line with this argument, the ratio used will reflect the nature of the business that is being treated and the classification that best satisfies this (Brigham, 1984). They divided the ratio into six fundamental types, which are;

- Liquidity Ratio
- Leverage Ratio
- Activity Ratio
- Growth Ratio
- Valuation Ratio

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter presents the methodology employed in the research study on the impact of financial reporting on investor decision making. The purpose of this chapter is to outline the research design, data collection methods, sample selection, and statistical techniques used to analyze the data.

3.1 Research Design

To achieve the objectives of this study, quantitative and qualitative approaches where data from respondents will be collected without repetition from the representative population. It will also be used because it will help the researcher to capture information based on data gathered for a specific point in time. The data gathered will be from a pool of participants with varied characteristics and demographics known as variables. More so, through the use of the cross-sectional research design, the research findings will help in removing assumptions and replace them with actual data on the specific variables studied during the time period accounted for.

3.2 Study Population

Denscombe, (2014) “the entire group of people, events, or things of interest which the researcher wishes to investigate”. The target population for this study 50 people which consisted of individual in sales and marketing staff, finance and accounting staff, middle managers, top managers and institutional investors. Due to the large size of the population, a sampling frame was created, and a random sampling technique was employed to select a representative sample. The sample size was determined using a sample size calculator, considering a 95% confidence level and a 5% margin of error.

3.3 Sample Size Determination

According to Katamba & Nsubuga (2014) sample size is the portion or subset of the total population. The sample size will be determined by the sample calculation formula by Taro Yamane’s (1970) formula as follows;

$$n = \frac{N}{1 + N(e)^2}$$

“n” is sample size, “N” Is population, “e” is error (0.05) or level of confidence 95%

“N” (population) = 50 individuals

$$n = \frac{50}{1 + 50(0.05)^2}$$

$$n = \frac{50}{1 + 50(0.0025)}$$

$$n = \frac{50}{1 + 0.125}$$

$$n = \frac{50}{1.125}$$

n = 44 employees (sample size)

Therefore, from the sample size calculation above, the sample size is 44 respondents from the total population of 50 staff members.

3.4 Sampling Techniques

A total of 44 individuals from the different departments in the finance industry will be selected using simple random sampling technique where samples will be randomly selected from the individuals in these departments in the finance industry.

A total of 3 key informants who are managers will be selected using purposive sampling technique. This method is a non-probability sample that is selected based on characteristics of a population and the objectives of the study (Thompson, 2012). It was used on the finance and accounting staff because it is believed that they are relevant to the objective of the study and that they have more knowledge on the subject matter basing on the fact that they are the ones tasked with developing and ensuring effective financial reporting to ensure improved performance and service delivery in the financial sector as a whole.

3.5 Data Sources

These are the specific means and ways used in the collection of data (Denscombe, 2014). The researcher used multiple data collection methods so that validity of findings is assured. Primary data was collected using the questionnaire survey and secondary data through documentary review method.

3.5.1 Primary Source

Questionnaire Survey, this method was chosen because it permitted the researcher to gather data logically and address research concerns in a consistent and economical way. “It was used because it is easy to administer to such a large number of respondents in a short period of time. It is also flexible and can be used to collect data within a short time” (Sekaran, 2003). Questions were helpful in collecting sensitive information from respondents. There was also an assurance of achieving honesty and confidentiality using this method.

3.5.2 Secondary Source

The researcher reviewed documents such as financial reports, annual reports, and relevant academic literature dedicated to providing information about financial reporting and extracted that data to supplement questions hence enriching the findings. As other academicians have found out, the advantage with documentary review is that data can be verified by other scholars, saves time and costs of acquiring information (Sekaran, 2003) and is flexible since data can be accessed at any suitable times.

3.6 Data Collection Instruments

This means description of instrumentation and tools used in the collection of data. Data was collected using the questionnaires, interview guide and documents checklist.

3.6.1 Questionnaire

“A questionnaire is a research instrument consisting of a series of questions and other prompts for the purpose of gathering information from respondents” (Denscombe, 2014). The questionnaire allowed the researcher to collect data systematically and addressed the research issues in the standardized and economical way as it is easier and cheaper to collect data from a large group of respondents in a limited time. “Structured or close ended questions are easier to analyze since they are in an immediate usable form” (Mugenda, 1999). They are easy to manage

because answers follow each item. Questions were scored on a “five-point Likert scale ranging from 5-1 i.e., strongly agree-5, agree-4, not sure-3, disagree-2 and strongly disagree-1” (Mcleod, 2023). The questionnaire was pre-tested in order to ensure reliability and validity and that enabled to build confidence that the instruments yielded good results.

3.6.2 Documents Checklist

This means a list of books and documents that are reviewed in the data collection process. The researcher read a great deal about the subject he or she was going to undertake in order to get the back ground and to find out information from other studies on a similar topic. An evaluation check list for analyzing was used for secondary data that is expected to supplement the primary source (Amin, 2005). A range of documents were reviewed and these include, World Bank annual reports (2004), UNDP annual report (2004), Enron scandal reports (2001) and other relevant academic literature.

3.7 Quality Checks: Validity and Reliability

3.7.1 Validity

Validity refers to the appropriateness of the research instruments (Amin, 2005). In this study, validity tests were carried out prior to the administration of these instruments. This was done to find out whether the questions were capable of capturing the intended responses. The researcher consulted expert judgment in order to assess the content validity index (CVI) for each item.

For the instrument to be acceptable as valid, CVI of at least 0.7 or above was considered (Amin, 2005). The researcher was to refine the instruments in case the CVI was below 0.7.

The CVI was given by the following formula:

$$\text{CVI} = \frac{\text{Number of items declared valid}}{\text{Total number of items}}$$

The instruments for this study were valid since they calculated a C.V.I of 0.84

3.7.3 Reliability

“Reliability as the measure of the degree to which a research instrument yields consistent results” (Sekaran, 2003). It is an indicator of the suitability, repeatability and consistency with which the

instrument measures concepts. The researcher conducted a pre-test of the instruments with 10 respondents to help uncover and identify the inconsistencies to be corrected. This was to demonstrate truthfulness and honesty (Denscombe, 2014).

The Cronbach Alpha coefficient was computed until at least the minimum reliability index of 0.7 was got which is always required (Amin, 2005). The Cronbach Alpha coefficient was computed using the following formula:

$$\alpha = \left(\frac{K}{K-1} \right) \left(1 - \frac{\sum \sigma^2 i}{\sigma^2 t} \right)$$

Where;

- K = Number of questions in the questionnaire
- $\sigma^2 i$ = Standard deviation squared (Variance) for each individual item
- $\sigma^2 t$ = Variance for the total items in the questionnaire

The instruments for this study were tested reliable since they gave a statistic of 0.79

3.8 Ethical Considerations

These are standards of conduct that a researcher followed while carrying out the study (Denscombe, 2014). Ethical standards prevent against the fabrication or falsifying of data and therefore promote the pursuit of knowledge and truth which is the primary goal of research (Rensnik, 2015). To ensure privacy, the respondents were informed that their names were not required and participation was voluntary. To ensure confidentiality, the respondents were informed that the information sought was for academic purposes and the data obtained was treated in confidence as recommended by Amin (2005).

3.9 Data Analysis and Presentation

“Data analysis refers to a process of organizing data so that the readers can get a meaning out of it” (Denscombe, 2014).

3.9.1 Quantitative Data Analysis

All quantitative data consisting of numeric values was analyzed using descriptive statistics and inferential statistics such as regression and correlation analysis especially when testing hypotheses and the relationship between variables. Data was also exported to statistical package for social scientists' software (SPSS) for final analysis and interpretation and was presented using figures and tables.

3.9.2 Qualitative Data Analysis

Qualitative study is about understanding that deep knowledge that comes from visiting personally with participants (Creswell, 2013). Qualitative data was analyzed systematically and thematically based on objective by objective. The researcher condensed data into memos to sieve out the unnecessary information (Creswell, 2013). Analysis involved identifying patterns, inconsistencies and relationships and reasons for their occurrences with the aim of explaining the relationship between financial reporting and decision making. Using content analysis, data was critically studied, analyzed and interpreted to generate meaning and conclusions made thereafter in line with the objectives of the study. Data was presented in short sentences.

3.9.3 Data Presentation

The researcher will present data by using percentages, correlations, standard deviation and graphs in order to present reliable data for both qualitative and quantitative data. These will be derived from the SPSS computer package and Microsoft excel. The data collected was tabulated to show the different variables and present the relationship between independent and dependent variable.

3.10 Anticipated Limitations and Delimitations of The Study

Some respondents might not be willing to provide information because of being suspicious of where the information will be taken. This will be solved through the nice remarkable reputation in the study context as a learning institution and also obtaining an introductory letter from the university. The researcher is likely to be limited by funds that will be needed to facilitate the research such as motivating the respondents, printing fees and even daily transport to the organization to collect data. However, the researcher will use self-initiatives and strategies to mobilize financial assistance from family.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.0 Introduction

In this chapter, the results are presented, analyzed and interpreted. The chapter highlights the response rate, demographic characteristics of the respondents and empirical study findings of the study according to the objectives of the study which was to find out the relationship between financial reporting and decision making. The analysis was done using SPSS statistical package. The data collected was presented using distribution, pie charts, frequency tables, and figures. Qualitative data was presented in short sentences.

4.2 Response Rate Table

Table 1: Showing the response rate for questionnaires and in-depth interviews.

| Category | Population | Sample size | Response Rate |
|------------------------------|-------------------|--------------------|----------------------|
| Industrial Investors | 3 | 3 | 3 |
| Top Managers | 6 | 6 | 4 |
| Middle Managers | 10 | 10 | 8 |
| Sales and Marketing staff | 14 | 12 | 11 |
| Finance and Accounting staff | 17 | 13 | 12 |
| Total | 50 | 44 | 38 |

Source: Primary Data

This study had a study population of 50; a sample size of 44 was selected for the study, of these sampled respondents, a total of 35 returned the questionnaires completed and 3 were interviewed giving response rate of 86.36%.

4.2 Demographic Characteristics of Respondents

To determine the background characteristics of the respondents the study focused on gender, age, education level and time spent in the financial industry. Demographics allow you to determine whether you are actually reaching your target audience. Knowing the distribution of the demographic characteristics of your respondents helps in determining how close the sample replicates the population.

4.2.1 Gender of Respondents

This section looked at the gender of the respondents which was categorized as male and female. The results were analyzed using descriptive statistics and are presented below:

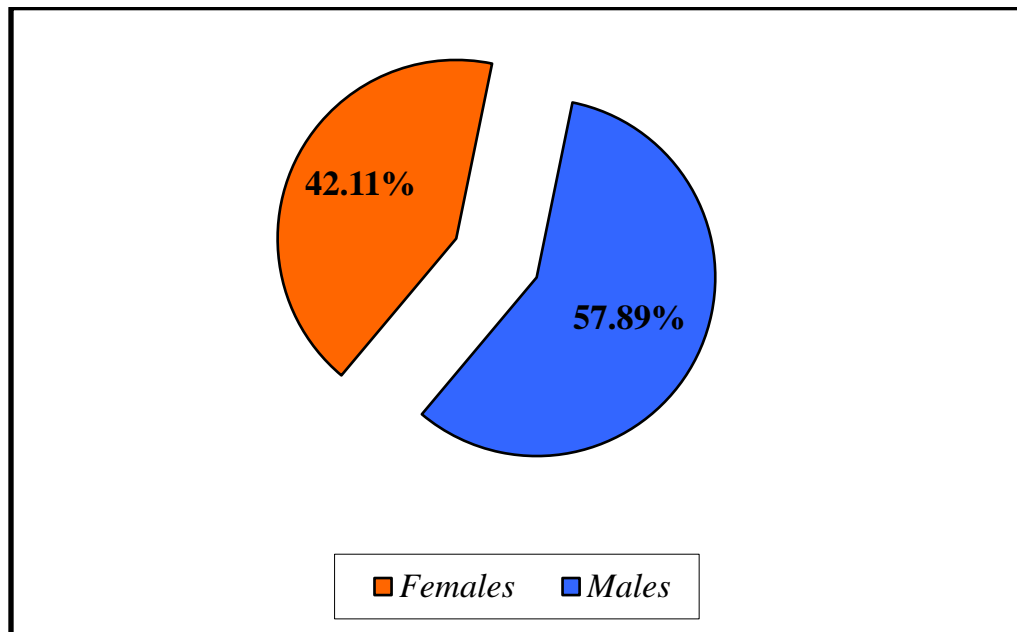


Figure 2: Gender of Respondents

Source: Primary Data

The study had more male participants at a distribution of 57.89% (22), compared to 42.11% (16) females.

4.2.2 Age of Respondents

This section looked at the age bracket of respondents which was categorized as Below 20 years, 20-29 years, 30-39 years, 40-49yrs, 50-59 years and Above 60 years. The results were analyzed using descriptive statistics and presented as follows:

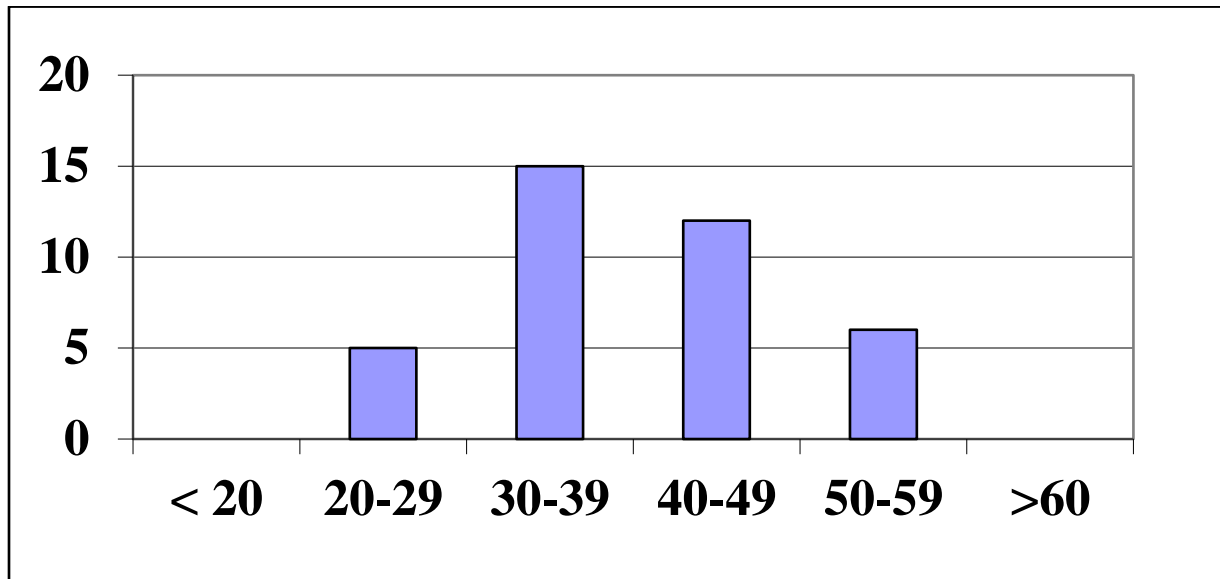


Figure 3: Age of Respondents

Source: Primary Data

The study findings show that 15 of the respondents fall in the age bracket of 30-39 years, followed by 40-49 years at 12, 50-59 years at 6, 20-29 years at 5 below 20 years at 0 and above 60 years at 0.

4.2.3 Education Level

This section looked at education level which was categorized as Tertiary, Bachelors, Post graduate and others. The results were analyzed using descriptive statistics and are presented below;

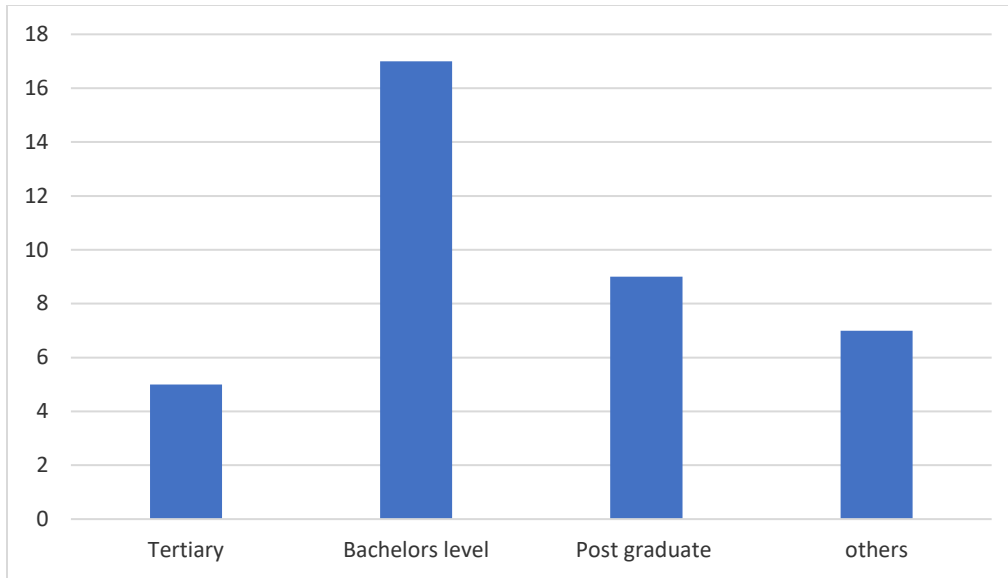


Figure 4: Education Level

Source: Primary Data

The study findings in the table above show that majority of the respondents at 17 are at Bachelors level, 9 at Post graduate, 7 others and 5 at Tertiary. The results show that majority of respondents are at Bachelor level, this is due to the fact that most organizations prefer employing degree holders since they are more innovative and knowledgeable.

4.2.4 Time Spent in the Finance Industry

This section looked at time spent in the finance industry which was categorized as <1Year, 1-4 Years, 5-9 Years and 10> Years. The results were analyzed using descriptive statistics and are presented below;

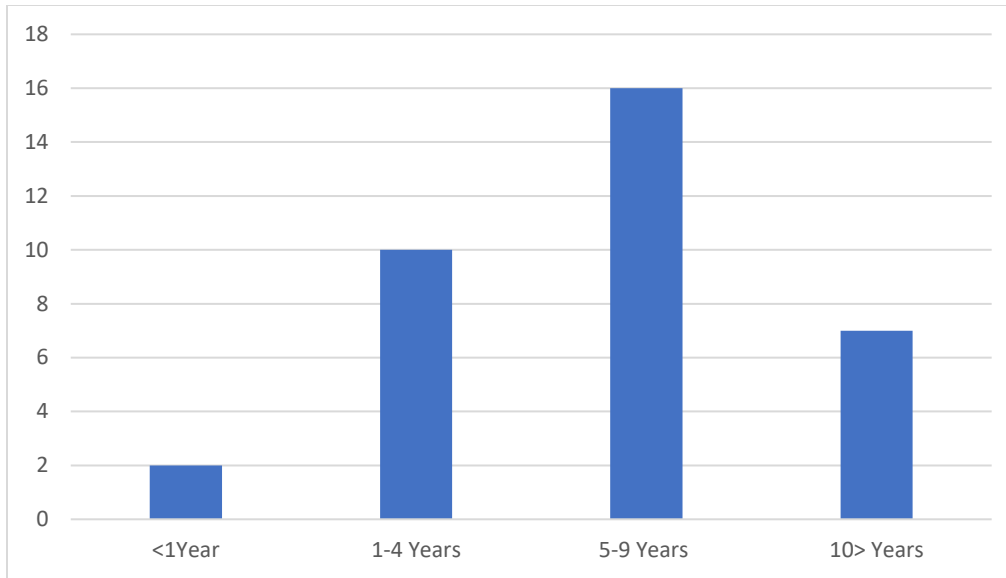


Figure 5: Time spent in the finance industry

Source: Primary Data

The study findings in the table above show that majority of the respondents at 16 had spent 5-9 years, 10 had spent 1-4 years, 7 had spent 10> years and 2 had spent <1Year. The results show that majority of respondents had spent 5-9 years and this is due to the fact that there is job security and favorable working conditions in the finance industry.

4.3 Empirical Findings

In the study, financial reporting was considered to be the independent variable, of which three dimensions of reliability, timeliness and understandability were considered. Decision making was considered to be the dependent variable. Empirical findings revealed that there is an insignificant relationship between reliability of financial reports and decision making, a significant relationship between timeliness of financial reports and decision making and a significant relationship between understandability of financial reports and decision making.

4.3.1 Reliability of Financial Reports and Decision Making

This section looked at the relationship between reliability of financial reports and decision making. The indicators under reliability included Compliance with International Financial Reporting Standards, Accuracy and Disclosure.

Table 2: Responses on Reliability

| Reliability | SD | D | N | A | SA | μ | σ |
|---|-----------|----------|----------|-----------|-----------|-------------|--------------|
| Financial reports are dependable and reliable. | 0 | 0 | 8 | 18 | 9 | 4.03 | 0.707 |
| Financial reports conform to known International Financial Reporting Standards. | 2 | 2 | 2 | 25 | 4 | 3.77 | 0.942 |
| Management depends on financial reports to make decisions | 1 | 2 | 7 | 19 | 6 | 3.77 | 0.910 |
| Reliability Mean and Standard Deviation | | | | | | 3.86 | 0.853 |

Source: Primary data

When respondents were asked if financial reports are dependable and reliable, 27 of the respondents agreed with the statement, 8 were not sure and 0 of the respondents disagreed with the statement. Mean was 4.03 and standard deviation was 0.707 which means that majority of respondents agreed with the statement since mean was above 3.0 implying that financial reports can be depended on and hence able to meet the proper decision making.

The qualitative findings sought from the interviews indicated that the financial reports prepared are reliable. This was mostly because they are prepared by trained personnel that conform to reporting standards.

In an interaction with key respondents, it was brought to attention that; *“The reports are reliable. The trained personnel that prepare financial reports in a manner that conforms to the international financial reporting standards that can be relied on by the users. This helps with proper decision making while preparing financial plans in budgeting and controlling”*.

This implies that investors rely on their financial reports and are very confident in the content as they are prepared by trained personnel. When respondents were asked if financial reports conform to known International Financial Reporting Standards, 29 of the respondents agreed

with the statement, 2 were not sure and 4 of the respondents disagreed with the statement while mean was 3.77 and standard deviation was 0.942 which means that majority of respondents agreed with the statement since mean was above 3.0 implying that the financial reports are prepared in an acceptable financial reporting standard and therefore can be relied on. The findings were in line with IFRS (IASB, 2003). When respondents were asked if management depends on financial reports to make decisions, 25 of the respondents agreed with the statement, 7 were not sure and 3 of the respondents disagreed with the statement while mean was 3.77 and standard deviation was 0.910 which means that majority of respondents agreed with the statement since mean was above 3.0. In order to establish the relationship between reliability of financial reports and decision making, a correlation was established.

Table 3: Correlations Between Reliability of Financial Reports and Decision Making

Correlations

| | | Decision Making | Reliability |
|-----------------|---------------------|-----------------|-------------|
| Decision making | Pearson Correlation | 1 | .294 |
| | Sig. (2-tailed) | | .087 |
| | N | 38 | 38 |
| Reliability | Pearson Correlation | .294 | 1 |
| | Sig. (2-tailed) | .087 | |
| | N | 38 | 38 |

Source: Primary Data

The study findings reveal that there is an insignificant relationship between reliability of financial reports and decision making given by the Pearson correlation of 0.294 at a sig. of 0.087. This indicates that reliability of financial reports has no significant relationship on decision making. This implies that decision making does not depend on reliability of financial reports.

Table 4: Model Summary of Reliability of Financial Reports and Decision Making

Model Summary

| Model | R | R ² | Adjusted R ² | Std. Error of the Estimate |
|-------|-------------------|----------------|-------------------------|----------------------------|
| 1 | .274 ^a | .076 | .057 | .52487 |

a. Predictors: (Constant), Reliability

Source: Primary Data

The model summary in the table above shows adjusted R² value of 0.057 between reliability of financial reports and decision making which suggests that reliability predicted 5.7% (0.057* 100) of the variance in decision making. The table shows adjusted R² = 0.057 and standard error of the estimate = 0.52487.

Table 5: ANOVA Results on Regression of Reliability of Financial Reports and Decision Making

The study tested the alternative hypothesis which stated that “there is a significant relationship between reliable financial reports and decision making”. The study tested the null hypothesis which stated that “there is no significant relationship between reliable financial reports and decision making”. The study used ANOVA statistical technique to analyze data.

ANOVA^b

| Model | Sum of Squares | Df | Mean Square | F | Sig. |
|------------|----------------|----|-------------|-------|-------------------|
| Regression | .837 | 1 | .837 | 3.128 | .088 ^a |
| Residual | 8.848 | 34 | .275 | | |
| Total | 9.675 | 35 | | | |

a. Predictors: (Constant), Reliability

b. Dependent Variable: Decision Making

Source: Primary Data

From the table above it can be concluded from the regression that reliability has got no significant relationship with decision making, F was at 3.128 accompanied by sig 0.088. Since significance was (0.088) which is greater than 0.05 the study rejected the stated hypothesis that “there is a significant relationship between reliable financial reports and decision making.

Table 6: Regression on Reliability of Financial Reports and Decision Making.

Coefficients^a

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------------|-----------------------------|------------|---------------------------|-------|------|
| | B | Std. Error | Beta | | |
| Constant | 2.719 | .613 | | 4.438 | .000 |
| Reliability | .284 | .161 | .294 | 1.766 | .087 |

a. Dependent Variable: Decision Making

Source: Primary Data.

From the table above, the study used coefficients (beta values) statistical techniques to analyze data. This helped to determine the extent and direction of the relationship between reliability and decision making and how reliability impacts decision making. The study showed that reliability had beta value of 0.294. It can be deduced from the regression that at 1% increase in reliability, decision making is improved by 0.294%. At 100% increase in reliability, decision making is likely to improve by 29.4%. 47

4.3.2 Timeliness of Financial Reports and Decision Making

This section looked at timeliness of financial reports and how it affects decision making. The indicator under timeliness was periodicity.

Table 7: Responses on Timeliness of Financial Reports and Decision Making

| Timeliness | SD | D | N | A | SA | μ | σ |
|--|-----------|----------|----------|----------|-----------|-------------|--------------|
| Managers avail financial reports on time | 2 | 4 | 8 | 16 | 5 | 3.51 | 1.067 |
| Delays in preparing financial reports affect decision making | 2 | 3 | 3 | 19 | 8 | 3.80 | 0.079 |
| Organizations base their decisions on out dated and current financial reports. | 3 | 8 | 5 | 11 | 8 | 3.37 | 0.808 |
| Reliability Mean and Standard Deviation | | | | | | 3.56 | 0.753 |

Source: Primary data

On asking respondents if the managers avail with financial reports on time, 21 of the respondents agreed with the statement, 8 were not sure and 6 of the respondents disagreed with the statement. Mean was 3.51 and standard deviation was 1.067 which means that majority of respondents agreed with the statement since mean was above 3.0 implying that the financial reports are mostly released on time. The qualitative findings got from the key respondents' interview indicated that the financial reports aren't always on time at all occasions. Key respondents noted that; The financial reports tend to delay yet management has to keep running. So, investors occasionally make decisions based on other things such as urgency. This is because at times quick decisions have to be made and there is often no time to consult with the reports. When respondents were asked if delays in preparing financial reports affect decision making 27 of the respondents agreed with the statement, 3 were not sure and 5 of the respondents disagreed with the statement while mean was 3.80 and standard deviation was 0.079 which means that majority of respondents agreed with the statement since mean was above 3.0 implying that whenever there are delays in preparing financial reports, decision makers make improper decisions. When respondents were asked if organizations base their decisions on out dated and current financial reports., 19 of the respondents agreed with the statement, 5 were not sure and 11 of the respondents disagreed with the statement while mean was 3.37 and standard deviation was 0.808

which means that majority of respondents disagreed with the statement since mean was below 3.0 implying that the bases for decisions is on current financial reports.

Table 8: Correlations Between Timeliness of Financial Reports and Decision Making

Correlations

| | | Decision Making | Timeliness |
|-----------------|---------------------|-----------------|------------|
| Decision making | Pearson Correlation | 1 | .438** |
| | Sig. (2-tailed) | | .009 |
| | N | 38 | 38 |
| Timeliness | Pearson Correlation | .438** | 1 |
| | Sig. (2-tailed) | .009 | |
| | N | 38 | 38 |

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Primary Data

The study findings reveal that there is a significant relationship between timeliness of financial reports and decision making given by Pearson correlation of 0.438** and sig at 0.009. This means that if the timeliness component is well managed while preparing financial reports, decision making will be improved. This implies that decisions will align with the up-to-date financial state which will help achieve long term goals and plans and proper resource utilization.

Table 9: Model summary of Timeliness of Financial Reports and Decision Making

Model Summary

| Model | R | R ² | Adjusted R ² | Std. Error of the Estimate |
|-------|-------------------|----------------|-------------------------|----------------------------|
| 1 | .438 ^a | .192 | .167 | .48432 |

a. Predictors: (Constant), Timeliness

Source: Primary Data

The model summary in the table above shows adjusted R2 value of 0.167 between timeliness of financial reports and decision making which is suggesting that timeliness alone predicted only 16.7% (0.167* 100) of the variance in decision making. The adjusted R2 = 0.167 and standard error of the estimate= 0.48432 suggested that timeliness was a significant influence of decision making.

Table 10: ANOVA on Regression of Timeliness of Financial Reports and Decision Making

The study tested the alternative hypothesis which stated that “there is a significant relationship between timeliness of financial reports and decision making”. The study tested the null hypothesis which stated that “there is no significant relationship between timeliness of financial reports and decision making”. The study used ANOVA statistical technique to analyze data.

ANOVA^b

| Model | Sum of Squares | Df | Mean Square | F | Sig. |
|------------|----------------|----|-------------|-------|-------------------|
| Regression | 1.834 | 1 | 1.834 | 7.818 | .009 ^a |
| Residual | 7.741 | 34 | .275 | | |
| Total | 9.675 | 35 | | | |

a. Predictors: (Constant), Timeliness

b. Dependent Variable: Decision Making

Source: Primary Data

From the table above, it can be concluded from the regression that timeliness has a significant contribution to decision making, F=7.818 and sig. 0.009^a. The study therefore accepted the hypothesis that “there is a significant relationship between timely reports and decision making”.

Table 11: Regression on Timeliness of Financial Reports and Decision Making.

Coefficients^a

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------------|-----------------------------|------------|---------------------------|-------|------|
| | B | Std. Error | Beta | | |
| Constant | 2.617 | .428 | | 6.117 | .000 |
| Reliability | .328 | .117 | .438 | 2.796 | .009 |

c. Dependent Variable: Decision Making

Source: Primary Data.

The study used coefficients (beta values) to analyze data. This helped to determine the extent and direction of the relationship between Timeliness and decision making and how timeliness impacts on decision making. The study showed that timeliness had a beta value of 0.438. It can be said from the regression that at 1% increase in timeliness, decision making is improved by 0.438%. At 100% increase in timeliness, decision making will improve by 43.8%. Therefore, management should strengthen timeliness of financial reports because it improves on decision making. It should endeavor to see that financial reports are prepared on time. This will enable to them to make sound decisions.

CHAPTER FIVE

SUMMARY, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

The purpose of this study was to find out the impact of financial reporting on Investor decision making. This chapter presents the summary, discussion, conclusions and recommendations of the findings.

5.1 Summary of Key Study Findings

The summary of the study findings is presented objective by objective. The main finding of the study revealed that there is a significant relationship between timeliness, understandability of financial reports and investor decision making and that there is an insignificant relationship between reliability of financial reports and decision making.

5.1.1 Reliability of Financial Reports and Decision Making

The study findings indicated that there is no significant relationship between reliability of financial reports and decision making at. Reliability was found to have a Pearson correlation = 0.294* and sig of 0.087. The study also indicated that reliability influences decision making by 5.7%. Furthermore, the study rejected the stated hypothesis that “there is a significant relationship between reliable financial reports and decision making”, since the sig value was above 0.05.

5.1.2 Timeliness of Financial Reports and Decision Making

The study findings indicated that there is a significant relationship between timeliness of financial reports and decision making. Timeliness of financial reports was found to have a Pearson correlation $r = 0.438$ and sig of 0.009. The study also indicated that 64 timeliness of financial reports influences decision making by 16.7%. Furthermore, the study accepted the stated hypothesis that “there is significant relationship between timely financial reports and decision making”.

5.1.3 Understandability of Financial Reports and Decision Making

The study findings indicated that there is a significant relationship between understandability of financial reports and decision making. Understandability of financial reports was found to have a

Pearson correlation $r = 0.779^{**}$ and sig of 0.000. The study also indicated that Understandability of financial reports influence decision making at by 59.5%. Furthermore, the study accepted the stated hypothesis that “there is a significant relationship between understandable financial reports and decision making”.

5.2 Discussions

5.2.1 Reliability of Financial Reports and Decision Making

The first hypothesis of the study stated that there is a significant relationship between reliability of financial reports and decision making. Data analysis and interpretation using Pearson’s correlation revealed that there is an insignificant relationship between reliability of financial reports and decision making. “The best way to improve decision making for an organization is by guidance got from reliable financial report ensured by complying with the acceptable financial reporting framework” (Lempert, 2013). Furthermore, the Inland Revenue department of Hong Kong (2005), argues that reliable and accurate financial records allow you to be in better control of your business by helping with financial planning and decision making, portrays a more professional image that makes it easier to deal with your bank and also detects losses and thefts. This shows that the reliability factor should not be neglected.

5.2.2 Timeliness of Financial Reports and Decision Making.

The second hypothesis of the study stated that there is a significant relationship between timeliness of financial reports and decision making. Data analysis and interpretation using Pearson’s linear correlation and regressions revealed that there is a significant relationship between timeliness of financial reports and decision making. This suggests that timeliness has an effect on decision making. The study findings are in agreement with International Financial Reporting Standards (2003) (IASB, 2003) which emphasizes that the information that is presented timely is generally more relevant to users while conversely, delay in provision of information tends to render it less relevant to the decision-making needs of the users.

5.2.3 Understandability of Financial Reports and Decision Making.

The third hypothesis stated that there is a significant relationship between understandability of financial reports and decision making. Data analysis and interpretation using Pearson’s correlation and regressions revealed that there is a strong significant relationship between

understandability of financial reports and decision making. This suggests that understandability of reports affects decision making. The study findings are also in agreement with Lempert (2013) who contends that understandability requires the information presented in financial reports to be concise, complete and clear in presentation.

5.3 Conclusions

Conclusions of the study are as below:

5.3.1 Reliability of Financial Reports and Decision Making

From the first objective which was to find out the relationship between reliability of financial reports and decision making, it was empirically established that there is an insignificant relationship between reliability of financial reports on decision making. Therefore, the study concluded that reliability is not an influence to decision making. Reliability of financial reports does not affect the decisions made at the hotel.

5.3.2 Timeliness of Financial Reports and Decision Making.

From the second objective which was to find out the relationship between timeliness of financial reports and decision making, it was empirically established that there is a significant relationship between timeliness of financial reports and decision making. Therefore, the study concluded that as timeliness increases, decision making improves.

5.3.3 Understandability of Financial Reports and Decision Making.

From the third objective which was to find out the relationship between understandability of financial reports and decision making, it was empirically established that there is a significant relationship between the two variables. The study therefore concluded that understandability of financial reports positively affects decision making.

5.4 Recommendations

Basing on the study the following recommendations were made:

5.4.1 Reliability of Financial Reports and Decision Making.

The study recommends managements to maintain financial reports that are prepared accurately and in an acceptable financial reporting standard so they are continuously relied on to make proper decision making.

5.4.2 Timeliness of financial reports and Decision making.

The study recommends that financial reports should be prepared on time so that they help in making valid decisions.

5.4.3 Understandability of Financial Reports and Decision Making.

The study recommends that trainings should be taken up to equip management and financial report users to readily understand the prepared financial reports so they make decisions basing on the information provided in the financial reports.

5.5 Contributions of The Study

The outcome of the study has a number of implications as it has established the effects of financial reporting on Investor or simply decision making. The most important contribution of the study is the awareness of the relationship between the variables of the study since the study came to finding that there is a significant positive effect of financial reporting on decision making. Therefore, the investors and users of financial information can use the recommendations suggested to enhance decision making. The study can also be a point of reference for future research. The study also approved the agency and stakeholder theory. It revealed that if the agent and principal are not aligned while making investment, there will be disaster. The study further approved the stakeholder theory and brought out the fact the decision making should not be only aligned with the shareholders but also with the interested parties in mind.

5.6 Area for Further Study

Due to financial and time constraints the study was centered on reliability, timeliness and understandability of financial reporting as potential variables having an effect on decision making. However, there were other variables like neutrality, comprehensiveness and consistency of financial reports which may affect decision making. Therefore, research needs to be carried out on these factors.

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APPENDIX 1; QUESTIONNAIRE
QUESTIONNAIRE

Dear respondent, my name is **Kasibe Edgar Eriazali**. I am an undergraduate student of Uganda Christian University, School of Business pursuing a Bachelor’s degree of Science in Accounting and Finance. I am gathering information about the **“Impact of Financial reporting on Investor decision making”**. This is to request for your contribution towards my study by participating in being a respondent. The information you will give is confidential and is not binding. Your participation is highly appreciated.

(Tick where applicable)

A. Background information

1. Gender:

1. Male

2. Female

2. Age:

1. Below 20 yrs.

2. 20-29 yrs.

3. 30-39 yrs.

4. 40-49yrs.

5. 50-59 yrs.

Above 60.

3. Education level:

1. Tertiary

2. Bachelors

3. Post graduate

4. Others (specify).....

4. Time spent working in the finance industry

1. < 1Year

2. 1-4 Years

3.5-9 Years

4.10> Years

5. Department

Finance

Administration

Information and stores

Other (Specify).....

Section B

1. Do financial reports play any role in investor decision making?

Yes

No

2. Do financial reports reveal the competence of management of a company?

Yes

No

3. Is it appropriate to believe in the ability of past financial reports in forecasting future performance?

Yes

No

4. Is there any relationship between financial reporting and investor decision making?

Yes

No

5. Does the state of the financial report influence the investors to buy shares from the company?

Yes

No

6. In your opinion, do you think investors rely on financial reports to make decisions?

.....
.....
.....

7. In your opinion, do you think the decisions made by management have affected planning and control of costs?

.....
.....
.....

8. In your opinion, do you think the financial reports are;

I. Reliable

.....
.....

II. Timely

.....
.....

III. Understandable

.....
.....

Section C: Financial Reporting (Independent Variables)

In the following sections, you are required to give your response by ticking Strongly Agree (SA)-5, Agree(A)- 4, Not Sure (NS)- 3, Disagree(D)-2, and Strongly Disagree (SD)-1

| | 5 | 4 | 3 | 2 | 1 |
|---|----|---|----|---|----|
| | SA | A | NS | D | SD |
| <p>Reliability of Financial Reports</p> <p>1. Financial reports are dependable and reliable.</p> <p>2. Financial reports conform to known International Financial Reporting Standards.</p> <p>3. Management depends on financial reports to make decisions.</p> | | | | | |
| <p>Timeliness of Financial Reports</p> <p>4. Managers avail financial reports on time</p> <p>5. Delays in preparing financial reports affect decision making</p> <p>6. Organizations base their decisions on out dated and current financial reports.</p> | | | | | |
| <p>Understandability of Financial Reports</p> <p>7. Organizations prepare financial reports with total completeness.</p> <p>8. Organizations’ financial reports are clear</p> <p>9. The users of organizations’ financial reports are equipped with the knowledge of how to get them understood.</p> | | | | | |
| <p>Decision making (Dependent variable)</p> <p>10. Investors rely on financial reports to make economic decisions.</p> | | | | | |

| | | | | | |
|--|--|--|--|--|--|
| 11. Financial planning is guided by the financial reports. | | | | | |
| 12. Companies' financial reports help in controlling of costs. | | | | | |
| 13. Investors rely on intuition when making decisions | | | | | |



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Transaction Receipt

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| Registration Number: | A84173 |
| Student Name: | Edgar Eriazali Kasibe |
| Amount: | 50,000 |
| Amount in words: | Fifty Thousand Shillings Only |
| Date: | 31 Aug, 2023 12:41 pm |
| Channel: | MTN MobileMoney |
| Description: | PAYMENT RECEIVED MTN_UG - 22012516906 |
| Trans Type: | PAYMENT RECEIVED |
| Channel Depositor Name: | 256789684174 |
| Channel Depositor Branch: | |
| Channel Memo: | Edgar Eriazali KasibeUGANDA CHRISTIAN UNIVERSITYBSAIF50000 |

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