

## **Importance of Accounting Information to Investors in the Stock Market: A Case Study of Libya**

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**Abstract:** *This study aims at investigating the importance of accounting information contained in the corporate annual reports published in the Libyan Stock Market from the perspective of investors as primary users of these reports. A set of questionnaires was used to gather information from all shareholders. The findings indicated that corporate financial reports are useful despite that they are not the most sought-after source of information influencing investors' decisions. Libyan investors depend mainly on the pieces of advice obtained from brokers to take their decisions then looking at corporate annual reports. This result might be due to inadequate information contained in corporate financial reports in terms of quantity and quality.*

**Keywords:** *Accounting Information, Investors' perception, Libyan Stock Market.*

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### **I. INTRODUCTION**

The stock market is a place for interested parties such as investors whether local or foreign to invest their money and achieve their main purpose of gaining profit and increasing wealth. Stock market allows investors to utilize various instruments to operate their liquidity to forecast reasonable associated risk. On the other hand, stock market serves two critical functions. First, it provides a link between the firms that need funds to start their new businesses and investors who spend money to invest in new firms. The second function is to provide a regulated place for buying and selling securities at prices determined by supply and demand, notwithstanding other macroeconomic fundamentals such as interest rates and inflation. Encouraging investors to invest their savings and providing corporations with opportunities to invest in equity finance lead to an increase in the level of investment in the stock market. These developments in turn enhance the economic growth in the country (Sunde & Sanderson, 2009). Investment in the stock market is the major area of concern among people who want to utilize their money effectively. In particular, making an informed decision is really the toughest task for most information users such as investors, creditors, financial analysts and auditors. No specific criteria are being used by various stakeholders who perform the financial and investment decisions. Every individual or group relies on its own way of dealing with the situations to make a right choice and rational decision (Anwar et al., 2012).

Today, corporate financial reports play a significant role in national economic growth and are considered as an effective tool providing useful information required by various users. The broad area of financial reporting offers a number of fundamental measures of company performance for accounting periods which in turn assists its users to make rational decisions (Irungu, 2013). For the stock market to operate efficiently and effectively, it should satisfy the capital providers' needs. In this sense, capital providers seek good opportunities to add capital value, while market operators hope to raise further capital through attracting investors for operation to make profit (Keyur, 2012). Thus, without accounting information, the market could not operate effectively and the potential investors may be reluctant to trade because they lack sufficient information to assess the value of investment (Kothari, 2001). For instance, Anderson and Epstein (1995) reported that corporate financial reports enable the financial director to precisely predict the future and could make a major contribution to improve corporate communications, accountability, and governance. In contrast, Sharayri and Momani (2011) confirmed that it is not possible to make a decision without conducting analysis of financial information.

Adequate financial information is essential to maintain an efficient market system. Disclosure and transparency of the corporation protect the investors, and thereby enhance the investors' confidence in the market. But the question remains whether the financial reports' users read and utilize these reports in their decisions or not. Examining the users' perceptions of financial reports have been the subject matter of a large number of studies conducted in many countries (developed and less developed) during the past years. Similarly, the current study seeks to contribute to the development of the knowledge in this field in Libya as a developing country and to identify the investors' perceptions of the importance of accounting information in their investment decisions. The main reason behind conducting this study is that the Libyan Stock Market (LSM) is a new market and there is a lack of such studies in this market. In particular, it is expected that the results of this study will enhance the investment level in Libya and provide some insights to stockholders, financial reporting regulators, users and financial statements' preparers in Libya.

In order to achieve the objectives of this study that focuses on investors' perceptions of the usefulness of accounting information in the LSM, the following four questions will be answered:

- What are the perceptions of the investors on how accounting information contained in corporate annual reports can be useful for the purpose of investment?
- How do the investors perceive the companies' financial statements (balance sheet, income statement and cash flow statement) in their investment decisions?
- How do the investors consider the other source of information in their investment decisions?
- What source of information is given the highest priority by investors and considered as the most important factor influencing their investment decisions?

The rest of this paper is organised as follows: the relevant literature on this subject is presented in Section 2, an overview of the LSM development is given in Section 3, a detailed research methodology is discussed in Section 4, while a rigorous analysis, insightful discussion of the data collected and the findings from the study are presented in Section 5. A succinct conclusion and proposal for future research are presented in Section 6.

## II. LITERATURE REVIEW

The importance of accounting information to capital market participants has gained the attention of many researchers in the past decades. Evidently, there have been several survey-based studies in accounting, investigating the perceptions of users regarding the usefulness of annual reports information. One of the pioneering studies in this field was conducted by Baker and Haslam (1973). In their study, they tried to identify the most important source of information used by individual investors in their analysis of common stock in the New York Stock Exchange (NYSE). A survey questionnaire was conducted to collect the perceptions of 851 individual investors. Their results showed that individual investors use many different factors in the analysis of common stock because they may have different information needs than professional analysts. They further opined that individual investors depend on stockbrokers' advice for their investment information. They also found that individual investors attach minor importance to financial statements as sources of information influencing their decisions. Similarly, Anderson and Epstein (1995) found that although the annual reports were less useful as a basis to build investment decision, they found it to be moderately important to take informed decisions.

In the Middle Eastern environment, Abu-Nasser and Rutherford (1996) examined how the external users of corporate financial reports view those reports in a less developed country like Jordan. External users represent individual investors, institutional investors, bank loan officers, stockbrokers, and academics. Based on a survey questionnaire, their results revealed that most user groups consider, at least, moderate use of corporate annual reports. However, they complained of lack of comparability, consistency, and reliability. In Saudi Arabia, Al-Mubarak (1997) undertook a study to discover the usefulness of corporate annual reports in the investment activities from financial analysts' view. Based on the statistical analysis of the results, the study found that financial analysts consider corporate annual reports as the most important source of financial information in their decision.

Hodge (2003) conducted a study to investigate the perceptions of nonprofessional investors on quality of earnings, independence of auditors, and usefulness of financial information. He conducted a survey of 414 individual investors who are members of the National Association of Investors Corporation (NAIC). The result showed a lower perception of earnings quality while a great reliance was given to company audited financial statements when making investment decisions. In Qatar, Al-Attar and Al-Khattar (2007) found that annual reports' users considered these reports as the most important source of information for investment decisions. In a developing country such as Palestine, Abdelkarim et al. (2009) investigated the perception of investors regarding the usefulness of information disclosed in companies' financial statement listed on the Palestinian Stock Exchange. Based on the questionnaire survey forwarded to 250 users, the results showed that despite the low quality of financial reports, most users perceived information items disclosed in annual reports as useful for their investment decisions. In addition, income statement, balance sheet and cash flow statement are the most important source of information.

De Zoysa and Rudkin (2010) studied the perceptions of the usefulness of annual reports in the Sri Lankan Stock Market. To examine the hypotheses of their study, a survey questionnaire was conducted covering seven user groups namely accountants, managers, bankers, tax officers, academics, financial analysts, stockbrokers and investors (individual and institutional). The result of their survey showed that the majority of users consider the annual reports as an important source of information, and they use the corporate financial statements frequently. However, they perceived the information provided by the companies as inadequate. In the same way, Azam and Kumar (2011) analyzed the individual investor behaviour and stock price variation in Karachi Stock Exchange by conducting a survey using the questionnaire methodology. Their findings suggested that earnings per share, foreign investment and gross domestic product growth rates have a significant impact on

stock prices. Also, the individual investors have lots of awareness about these factors when they make their investment decisions.

In Jordan, Al-Sawalqa(2012) also agreed that corporate financial information is a critical source in obtaining good investment opportunities, and individual investors depend on written information issued by internal companies rather than verbal information in their investment decisions. Obamuyi(2013) conducted a study that specifically looked to determine the possible factors that influence individual investors in the Nigerian capital market. His results revealed that five factors influencing investors' decisions are past performance of the company, expected stock split, dividend policy, expected corporate earnings and get-rich quick. However, religious beliefs, rumors, company' products (services), the opinion of family and expected losses in other investments were considered to be the least influencing factors.

In other Arab countrieslike Egypt, KhaledandGamal(2013) examined investors' preferences, attitudes and perceptions of dividends in the EgyptianStock Market. The study considered in the survey individual investors who hold shares directly in the companies while institutional investors were excluded. Based on statistical analysis,the overall outcome indicated that individual investors have a strong preference to receive dividends to the degree that they prefer stock dividend if the company cannot pay cash dividend. A recent study by JagongoandMutswenje(2014) investigated the factors that influence the individual investors' decisions at Nairobi Stock Exchange (NSE). An instructed questionnaire was conducted to collect the perceptions of individual investors at the NSE, and found that firms' position and performance, investment returns, economic conditions, goodwill of the firms, accounting information, environmental factors, and risk minimization are the most important factors influencing the individual investors' decisions at the NSE.

All these previous studies formed part of the motivation to embark on this study for the Libyan Stock Market. It is hoped that the outcome will be of benefit to all stakeholders of the Libyan market.

### III. THE OVERVIEW OF THE LIBYAN STOCK MARKET

Since 1999, considerable changes in the Libyan economy have started to accrue, especially with the banking sector. Libyan government considered how economic reform programs may benefit business and how they may be managed. Economic reform measures have been adopted encompassing almost all economic areas such as restrictionin banking rules, fiscal and monetary reforms, and low investment. The main purpose of devising an economic reform was aimed at enhancing worker's knowledge to better meet the demands of the marketplace. In particular, the planning of economic reform includes comprehensive liberalization, mobilizing savings and turning them into investment in all productive sectors, and removing any obstacles encountered in the establishment of a stock market(Masoud, 2009;Shernanna, 2012). Consequently, the LSM was established in 2006 by the Decision No. 134 of the General People's Committee (GPC) with a capital of 400 million LD. Theestablishment of the market in Libya plays a significant role in raising the capital and enhancing the Libyan economic reform. It gives an opportunity to everyone to invest their money and savings in the form of securities and achieve greater returns which might lead to increase in the GDP (Edweib et al., 2013).

LSM has witnessed gradual developments in its operation since its establishment. This development led to the attraction and increase in the number of local and foreign investors. In 2006 and 2007, the volume of trading and the total numbers of contributing companies were very limited. While in March 3<sup>rd</sup>, 2008, LSM began with the introduction of electronic trading system based on the Egyptian model. This new computerized system was designed to make the market efficient and increase the volume of trading. Additionally, LSM implemented a new technology system to work with the specifications and standards of the international market.LSM needs foreign investment to engender growth in its capital market and economy as a whole. It can be noted that LSM recently became a member of African and Middle East Depository Agency, and also joined the Arab Securities Exchange Association (LSM Annual Report, 2008; Aljbiri, 2012). Table 1 shows the main Libyan stock market indicators during the first three years of its establishment.

Table 1: LibyanStock Market Main Indicatorsduring 2008–2010\*

Year	Number of Trading Days	Index (IDX)	Trading Volume	Trading Value	Market Capitalization	Total Average of Value
2008	186	796.75	1,549,216	29,276,065.60	874,780,997.50	157,398.20
2009	253	1104.28	5,493,846	65,548,389.600	2,654,819,771.00	259,084.544
2010	191	1295.04	4,513,994	58,065,004.650	3,767,773,648.000	304,005.260

\*Source: Libyan Stock Market 2008 - 2010 Annual Reports.

Recently, four main sectors became dominant in the LSM namely banking, investment and financial, insurance and industrial sectors. However, the market composition was dependent heavily on the banking sector comprising of 75 per cent of market capitalization, followed by the insurance sector with 19 per cent, the

services sector with 4 per cent and the industry sector with 2 per cent (LSM Report,2010). Figure 1 shows the classification of the main sectors in the LSM.

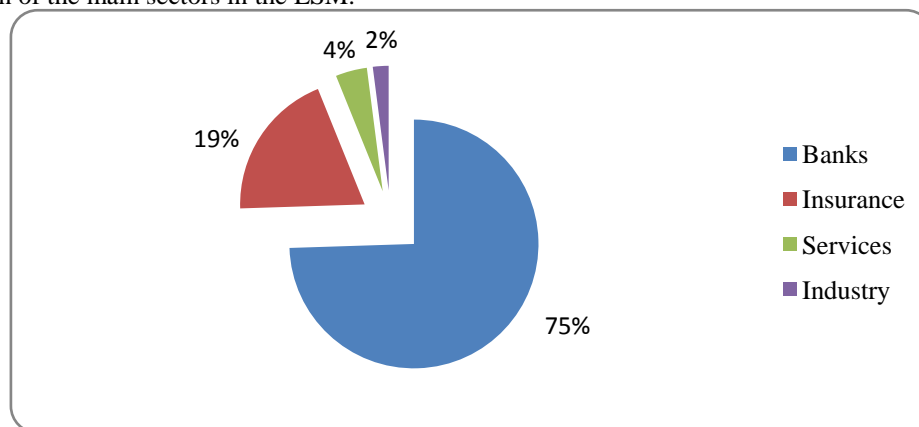


Figure 1: Libyan Stock Market Sectors (Source: Libyan Stock Market Report 2010)

This study is important because it casts more light on the stock market and its contribution to the economic growth in a developing country such as Libya. Due to the lack of previous work on the Libyan financial market, we hope that the results of this study will provide some useful information to investment practitioners (individual and institutional investors), creditors, financial analysts, academicians and regulators which in turn will enhance the overall efficiency of the LSM.

#### **IV. RESEARCH METHODOLOGY**

##### **1. Population and Sample of Study**

In order to achieve the objectives of this study, a questionnaire-based survey was designed and distributed to a group of investors in the LSM. The population of the study consists of all individual investors who registered and are holding shares in companies listed in the LSM. This study focuses on the perceptions of the individual investors group for many reasons. Firstly, the current and potential investors are capital providers and they are interested in the risk-benefit relationship in order to make decisions regarding purchase, selling or holding company shares. Financial statements that meet the investors' needs will generally meet most of the needs of other users. Secondly, the individual investors group is the largest and the most active part in the LSM. Thus, their perceptions and views toward publishing financial information cannot be ignored. This is consistent with other previous studies done by Anderson and Epstein (1995); Ba-Owaidan (1994); Motwani (2013) and Obamuyi (2013). They focused mainly on the perceptions of individual investors regarding the usefulness of annual reports in their studies.

The survey for the current study looks only at the individual investors that hold direct shares in listed companies. Indirect holding through pensions was excluded. In addition, this study deals with the individual investors as one group without dividing them into small, medium and large. This agrees with Al-Sawalqa (2012) who suggested that it is more accurate to deal with individual investors as one group without dividing them into small and large groups since there is no guarantee for small investors to stay small permanently. The investor may change from small to large within a few days. In addition, there are no clear standards to classify these categories, and the equity of stock depends on the investors' ability.

Since the population of the individual investors group is large, the survey was carried out among a sample of 310 individual investors chosen by adopting the methodology proposed by Krejcie and Morgan (1970). The methodology was used previously by Wanyana (2007) to determine the sample in his study. Over 350 questionnaires were distributed out of which only 256 were usable.

##### **2. Structure and Reliability of the Questionnaire**

The development of the questionnaire was based on an extensive review of the relevant literature that have investigated the multi-investors' perceptions towards the usefulness of financial information in investment decisions. Such literature include Abu-Nasser and Rutherford (1996); Ismail and Chandler (2005); Mirshekary and Saudagaran (2005); AbdelKarim et al. (2009); De Zoysa and Rudkin (2010); Al-Zarouni et al. (2011); Al-Sawalqa (2012); Khan and Ismail (2012); Alanezi et al. (2014). Despite that the questionnaire of the current study was built on an idea from previous literature, a pilot test was conducted. A draft of the questionnaire was reviewed and pre-tested through three professionals in the area of Accounting and Finance. Based on their comments, the structure of the questionnaire was improved, reaching its final form. Also, to assess the reliability and internal consistency of the questionnaire, Cronbach's Alpha test was conducted. The overall

Cronbach's Alpha coefficient for all categories was 97.48 per cent, indicating the high reliability of the instrument of the study.

The questionnaire used for this study employed a five-point Likert scale to determine the degree of each information item to the respondents. The questionnaire was divided to cover two main sections. The first section covers the respondents' demographic characteristics such as gender, ages, experience in the investment field, qualification and the sector invested in. The second section which focuses on the main objective of this study was divided into three sub-sections. The first one reflects the investors' views about the usefulness of accounting information for the purpose of investment. In the second sub-section, the questionnaire requests the respondents to rank the importance of firms' financial statements (balance sheet, income statement and cash flow statement) in their investment decisions. The third sub-section covers the investors' views about the importance of other sources of information in their investment decisions. Suitable parameter methods such as frequency, percentage, arithmetic averages, standard deviation and one sample T-test were conducted to analyze the data gathered by the questionnaire. The organization of the questionnaire is summarized in Figure 2.

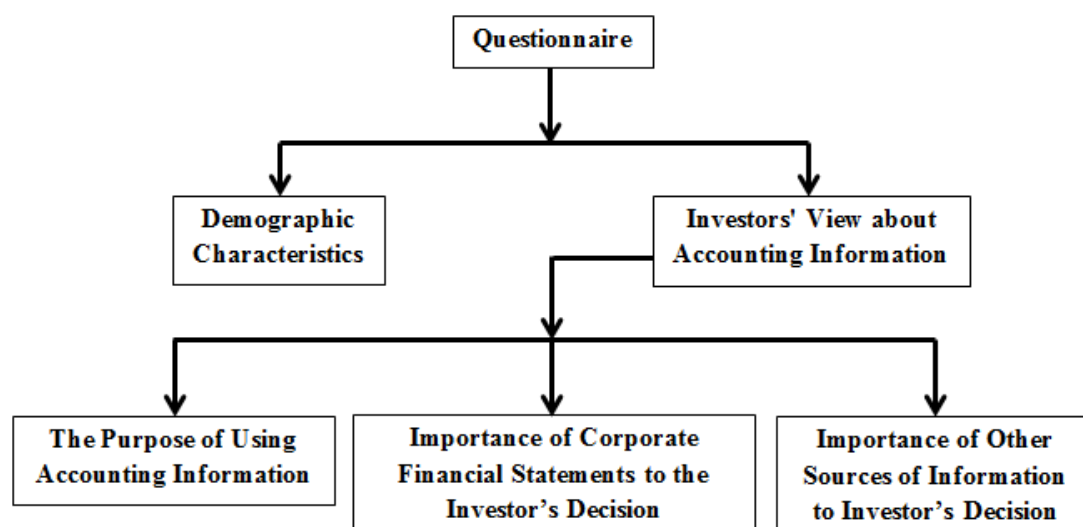


Figure 2: Summary of the Organization of the Questionnaire.

## V. DATA ANALYSIS AND DISCUSSION

### 1. Respondents' Socio-Economic Characteristics

Table 2 through 7 present the socio-economic characteristics of the respondents in this study by gender, age, education level, years of experience in the investment field, degree field and the sector invested in respectively.

Table 2: Demographic Characteristics of Respondents by Gender

Gender	Number	Percentage (%)
Male	174	68
Female	82	32
<b>Total</b>	<b>256</b>	<b>100</b>

Table 3: Demographic Characteristics of Respondents by Age

Respondents' Age	Number	Percentage (%)
< 30 years	50	19.5
30 – < 35 years	65	25.4
35- < 40 years	68	26.6
>40 years	73	28.5
<b>Total</b>	<b>256</b>	<b>100</b>

Table 4: Demographic Characteristics of Respondents by Level of Education

Education Level	Number	Percentage (%)
Diploma	54	21.1
Bachelor	142	55.5
Master	47	18.45
PhD	13	5.1
<b>Total</b>	<b>256</b>	<b>100</b>

Table 5: Demographic Characteristics of Respondents by Years of Experience

Years of Experience	Number	Percentage (%)
1 - < 5 years	146	57
5- < 10 years	75	29.3
>10 years	35	13.7
<b>Total</b>	<b>256</b>	<b>100</b>

Table 6: Demographic Characteristics of Respondents by Degree Field

Field of Specialization	Number	Percentage (%)
Accounting	50	19.5
Economics	32	12.5
Finance	27	10.5
Business Administration	26	10.15
Commerce	7	2.37
Stock Market	12	4.70
Languages	7	2.7
Law	12	4.68
Arts	8	3.12
Engineering	21	8.2
Medicine	14	5.47
Science	19	7.42
Agriculture	9	3.51
Others	12	4.7
<b>Total</b>	<b>256</b>	<b>100</b>

Table 7: Demographic Characteristics of Respondents by Sector

Name of Sector	Number	Percentage (%)
Bank	151	59
Insurance	64	25
Service	36	14
Others (Industry)	5	2
<b>Total</b>	<b>256</b>	<b>100</b>

As shown in Table 2, 68 per cent of the respondents were male and 32 per cent were female. This distribution is consistent with the nature of females. It reflects the fact that stock market is sometimes risky and women in general do not like to take risks. Most of the respondents were aged above 40 years. This is shown in Table 3. This is because people of more than 40 years are most concerned about retirement and hence need more money for their post-retirement life. According to Table 4, most of the respondents hold bachelor degree (55.5 per cent). This is an indication that most of the respondents are well educated. In terms of years of experience, Table 5 shows that most of the respondents have a total experience in the investment field as a whole ranging from one to less than 10 years. This is because the LSM is a new market that was established in 2006. Most respondents could be considered well-educated, where more than 60 per cent of them had qualifications in accounting and finance, business administration, economics and stock market as shown in Table 6. This is a good indicator of the quality and integrity of this study as most of the respondents have a background in the subject, and hence can give reliable answers. Table 7 similarly shows that most investors focus their investment in the banking sector with 59 per cent. This indicates that the banking sector is the most active sector in the LSM and the most listed companies were banks.

## 2. Investors' View about the Usefulness of Accounting Information in the Investment Processes

Table 8 shows that in the first question, the respondents were asked about their usage of financial information provided by companies in their investment decisions. Majority of them responded that they depend on published financial information as important source of information, assisting them in their investment decisions. This is reflected by a mean value of 3.86. The Table also shows that majority of respondents agreed with the benefits of using accounting information in decision-making. Evidently, all items are important with arithmetic means greater than 3, and p-value of less than 0.05. This means that they are statistically significant. For example, they perceived that accounting information can increase the ability of decision makers to judge on investment decision and help to assess the liquidity of the company. This is reflected by a mean value of 3.71 and 3.67 respectively. This is, to a large extent, consistent with the findings by Alattar and Al-Khater (2007) who surveyed multiple user groups.

**Table 8: Investors' Views on the Purpose of Using Accounting Information in the Investment Decisions.**

Statement	Mean	Std. Deviation	T-Statistic	P-Value
1- Investors in the LSM depend on accounting information as an important source of information to assist them in their investment decisions.	3.86	1.182	11.687	0.000*
2- Accounting information increases the capabilities and skills of decision-makers.	3.71	1.110	10.304	0.000*
3- Accounting information helps investors to monitor their investment decisions.	3.50	1.234	6.435	0.000*
4- Using accounting information reduces the expected risk of investment.	3.61	1.129	8.637	0.000*
5- Accounting information helps investors to evaluate the firm's performance before investing in its shares.	3.71	1.083	10.447	0.000*
6- Accounting information assists investors to predict the current and future profitability of firms.	3.63	1.109	9.132	0.000*
7- Accounting information helps investors to predict future dividends.	3.63	1.109	9.132	0.000*
8- Accounting information assists investors to predict the price of securities.	3.56	1.150	7.773	0.000*
9- Increase or decrease in stock prices can be due to change in accounting information.	3.27	1.066	3.986	0.000*
10- Accounting information is useful for planning for a firm's future investment.	3.66	1.079	9.843	0.000*
11- Accounting information helps investors to assess the liquidity of the companies.	3.67	1.026	10.447	0.000*

\* Significant at the 0.05 level

### 3. Importance of Company's Financial Statement to Investor's Decision

The results of the investors' perception towards the various items of the firm's financial statement including income statement, balance sheet and cash flow, and the effect of such on their investment decisions are shown in Table 9.

**Table 9: Company's Financial Statements**

Statement	Mean	Std Deviation	T-statistic	P-value
<b>Balance Sheet Items</b>				
Cash	3.78	1.290	9.642	0.000*
Current Assets	3.45	1.197	6.005	0.000*
Intangible Assets	2.84	1.109	-2.254	0.025*
Current Liabilities	3.24	1.186	3.266	0.001*
Yearly retained earnings	3.47	1.211	6.246	0.000*
Total of shareholders' equity	3.45	1.283	5.653	0.000*
Book value per share	3.84	1.288	10.383	0.000*
Amount of long-term liabilities	3.19	1.316	2.327	0.021*
Allowance for doubtful debts	2.81	1.354	-2.262	0.025*
Amount of yearly dividends	4.43	1.079	21.258	0.000*
Capital structure	4.14	1.149	15.877	0.000*
Fixed-assets	3.64	1.215	8.485	0.000*
Long-term investment	3.42	1.202	5.616	0.000*
Prepaid expenses	3.19	1.291	2.324	0.021*
<b>Overall</b>	<b>3.49</b>	<b>0.912</b>	<b>8.647</b>	<b>0.000*</b>
<b>Income Statement Items</b>				
Gross income from ordinary activities	4.36	1.17	19.586	0.000*
Net profit from extraordinary activities	3.56	1.318	6.780	0.000*
Income tax for the year	3.41	1.271	5.211	0.000*
Total of revenues	3.56	1.279	7.038	0.000*
Total of expenditure	3.34	1.248	4.355	0.000*
Cost of sales	3.19	1.327	2.261	0.025*
Bad debt expenses	2.82	1.392	-2.110	0.036*
Yearly profit after tax	4.26	1.194	16.909	0.000*
Earnings per share	4.18	1.164	16.210	0.000*
Dividend per share	4.26	1.150	17.548	0.000*
<b>Overall</b>	<b>3.69</b>	<b>0.970</b>	<b>11.447</b>	<b>0.000*</b>
<b>Cash Flow Statement</b>				
Net cash flow from operating activities	3.47	1.236	6.067	0.000*
Net cash flow from financing activities	3.46	1.307	5.643	0.000*
Net cash flow from investing activities	3.52	1.366	6.131	0.000*
<b>Overall</b>	<b>3.48</b>	<b>1.209</b>	<b>6.141</b>	<b>0.000*</b>

\* Significant at the 0.05 level

As shown in Table 9, the respondents' perception of the items having the most significant influence on their investment decision is indicated by a mean value of more than 3, and p-value of less than 0.05. However, their preference toward the different sections varies. For example, in the balance sheet, the most important item was the amount of yearly dividends with the mean value of 4.43, standard deviation of 21.258 and p-value 0.000. On the other hand, the lowest mean value was 2.81 for the "allowance for doubtful debts" item. This is not surprising since the LSM was dominated by speculators and long-term investors. They are commonly interested in yearly dividends in both short and long term.

In the income statement section, the higher mean of 4.36 was given to gross income from ordinary activities item, followed by yearly profit after tax, dividend per share and earnings per share with a mean value of 4.26, 4.26 and 4.18 respectively. The lowest mean of 2.82 was rated into bad debt expenses. This result might be explained that the investors look at the profitability of the company from different components as the main sector to assess the performance of the company before making their investment decisions. They, however, do not prefer to look in difficult and missing data such as bad debt expense to assess the company. In the cash flow statement section, net cash flow from investing activities was rated by respondents as the most important item influencing their decisions with a mean value of 3.52, followed by net cash flow from operating activities and net cash flow from financing activities with a mean value of 3.47 and 3.46 respectively.

Looking at the overall scores of the means for the three sections, the results outlined in Table 9 showed that respondents attached a higher level of importance to the income statement section with the highest mean value of 3.69 followed by the balance sheet section with a mean score of 3.49 and cash flow statement with a mean score of 3.48.

**4. Importance of Other Sources of Information to Investor's Decision.**

The results of the investors' view on the other sources of information and their effect on investment decisions are shown in Table 10. Regarding the respondents' perceptions of other sources of information in their investment decisions, Table 10 shows that the highest mean value of 3.91 and a standard deviation of 1.172 were rated to stock brokerage firm's advice. This is followed by different sources of information such as company's fundamental analyses represented by liquidity ratio, market reports, debt to equity ratio, and return to assets. Auditor report, return on equity, number of investors in the market, the number of shares issued and authorized, accounting policies, advice of friends and notes to the financial statement are considered to be next important.

Table 10: Investors' Views on Other Information

Statements	Mean	StdDeviation	T-Statistic	P-value
Auditor Report	3.62	1.243	7.992	0.000*
Notes to the financial statements	3.35	1.249	4.452	0.000*
Firms accounting policies	3.25	1.302	3.119	0.000*
Statement of change in owner's equity (the number of shares issued and authorized)	3.45	1.324	5.427	0.000*
<b>Indices related to profitability of firm</b>				
Return on Assets	3.70	1.252	8.989	0.000*
Return on Equity ratio	3.60	1.333	7.219	0.000*
Indicator about the performance of company (debt to equity ratio)	3.73	1.275	9.382	0.000*
Liquidity Ratio	3.88	1.275	11.079	0.000*
Advice of friends	3.39	1.276	4.947	0.000*
Luck	2.67	1.299	-4.041	0.000*
Rumors	2.62	1.326	-4.573	0.000*
Periodical market reports	3.81	1.140	11.345	0.000*
Advice from brokerage firms	3.91	1.172	12.481	0.000*
Number of investors in the market	3.46	1.366	5.446	0.000*

\* Significant at the 0.05 level

To a large extent, we can conclude that Libyan investors depend on various sources of information for investment decision making. More specifically, despite that they considered the company financial statements as important source of information that significantly impact on their investment decisions, they also prefer to



depend on other sources of information such as stock broker’s advices, auditor’s reports and market periodical reports. This indicates that Libyan investors prefer to look for every piece of information that might assist them to take rational decision. To a large extent, these findings are in perfect agreement with the results obtained by other studies conducted in the developing countries while surveying multiple groups of users (Abdel Karim et al. 2009; Abu-Nasser and Rutherford 1996; Al-Zubaidi 2010; DeZoysa and Rudkin 2010; and Mirshekary and Saudagaran, 2005). For example, Al-Zubaidi (2010) found that individual investors in Iraq considered company annual reports as important source of information influencing their decision, and followed by other information such as brokerage’s advice and market publications.

**5. Importance of Different Sources of Information (Financial and Non-Financial)**

This part represents the sources of information that investors use and rely on to take their decisions related to buying, holding and selling shares. Table 11 shows the mean scores that investors accorded to different sources of information and their rank. The Table shows that investors rank the different sources of information as useful information influencing their investment decision, reflecting a mean score of higher than 3, ranging from 3.39 to 3.91. Rumors and luck were given the lowest mean values of 2.62 and 2.67 respectively. However, stockbrokers’ advice continued to be the investors’ primary source of information on which they rely while taking their investment decisions. This is followed by different sections of financial information including company’s fundamental analyses represented by liquidity ratio, market reports, debt to equity ratio, return to assets, auditor report, income statement, return on equity, balance sheet, cash flow statement, number of investors in the market, the number of shares issued and authorized, accounting policies, advice of friends and notes to the financial statement respectively.

Table 11: Investors view about different source of information (financial and non-financial)

No	Sources of information	Mean	StdDeviation	T-test	P-value	Rank
<b>A- Financial information include in annual reports</b>						
1-	Balance Sheet.	3.49	0.912	8.647	0.000*	(9)
2-	Income statement.	3.69	0.970	11.447	0.000*	(6)
3-	Cash flow statement.	3.48	1.209	6.141	0.000*	(10)
4-	Auditor’s report.	3.62	1.243	7.992	0.000*	(7)
5-	Notes appended to financial statement	3.35	1.249	4.452	0.000*	(14)
6-	Firm’s accounting policies.	3.25	1.302	3.119	0.000*	(15)
7-	Statement of change in owner’s equity)	3.45	1.324	5.427	0.000*	(12)
Indices related to corporate profitability of such as:						
8-	Return on assets ratio.	3.70	1.252	8.989	0.000*	(5)
9	Return on equity ratio.	3.60	1.333	7.219	0.000*	(8)
10-	Indicators of the performance of the company (debt to equity ratio).	3.73	1.275	9.382	0.000*	(4)
11-	Firm’s liquidity ratio.	3.88	1.275	11.079	0.000*	(2)
<b>B- Non-financial information</b>						
12-	Advice of friends.	3.39	1.276	4.947	0.000*	(13)
13-	Luck.	2.67	1.299	-4.041	0.000*	(16)
14-	Rumours from the market.	2.62	1.326	-4.573	0.000*	(17)
15-	Periodical market reports.	3.81	1.140	11.345	0.000*	(3)
16-	Advice from brokerage firms.	3.91	1.172	12.481	0.000*	(1)
17-	Number of investors in the market.	3.46	1.366	5.446	0.000*	(11)

\* Significant at the 0.05 level of significance.

To a large extent, the afore-mentioned findings are in perfect agreement with the results obtained by other studies conducted in the developed countries while surveying individual investors group (Baker and Haslem 1973; Anderson and Epstein 1995). For example, Baker and Haslem (1973) reached the conclusion that individual investors in the USA depend heavily on brokers’ advice, and perceived that company’s annual reports are moderately important in decision making.

**VI. CONCLUSION**

The main objective of this study is to measure the usefulness of accounting information contained in annual reports in the Libyan Stock Market (LSM) from the investors’ perspective. The results of the survey showed that, although corporate financial reports are less useful as the basis for investment decision making, most of the respondents found it to be useful information. In particular, Libyan investors prefer firstly to take pieces of advice from brokers as a basis to assess their investment decisions then looking at corporate financial reports. This result may reflect the inadequacy in the disclosures in corporate financial reports in terms of quantity and quality. This conclusion confirms the need for future research on the evaluation of disclosure in the annual reports of companies listed in the LSM.

This study provides evidence on the usefulness of financial reports in a developing country such as Libya as business entities in a new market seek to attract investors both domestic and foreign. This result will also help financial statement preparers to identify the importance of each item of information to investors, hence, tailoring their financial statements to the needs of the investors. This result further points to steps to be taken to enhance the corporate financial statements in developing countries.

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