NEAR EAST UNIVERSITY
GRADUATE SCHOOL OF SOCIAL SCIENCES
BANKING AND FINANCE PROGRAM

THE ROLE OF FINANCIAL STATEMENTS IN EFFECTIVE INVESTMENT DECISION MAKING IN SMEs

SIHAD HUSSEIN ANWAR

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ACCEPTANCE/APPROVAL

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DECLARATION

I Sihad Hussein Anwar, hereby declare that this dissertation entitled '**The Role of Financial Statements in Effective Investment Decision Making in SMEs**' has been prepared myself under the guidance and supervision of **'Turgut Tursoy'** in partial fulfilment of the Near East University, Graduate School of Social Sciences regulations and does not to the best of my knowledge breach and Law of Copyrights and has been tested for plagiarism and a copy of the result can be found in the Thesis.

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ABSTRACT

THE ROLE OF FINANCIAL STATEMENTS IN EFFECTIVE INVESTMENT DECISION MAKING IN SMEs

This study aimed at investigating the role of financial statements in effective investment decision making in SMEs. Before this study, resaercher focused on the role of financial statements in decision making for Multinational Companies however, the financial statements can play important role in SMEs. The researcher used a quantitative research design to answer the research question. The data was collected with the help of questionnaire adapted from Carraher and Van Auken (2013). The researcher used SPSS program to analyze the findings of the stuyd.

The results of the study show that the level of revenue and the comfort of owner in their capacity to interpret the statements are positively related. Furthermore, the factors that affect the actual use of financial statements in decision making process showed significant relationship between level of education and the use of financial statements. The owners that are more comfortable in using the financial statements in terms of interpreting the statements will use the statement in decision making process. The owner that are not confident in interpreting the financial statements would not use the financial statements in the decision making process.

Keywords: Financial Statements, Decision Making, SMEs, Owner’s Comfort, Financial Literacy,

ÖZ

THE ROLE OF FINANCIAL STATEMENTS IN EFFECTIVE INVESTMENT DECISION MAKING IN SMEs

Bu çalışma, KOBİ'lerde etkin yatırım karar vermede finansal tabloların rolünü araştırmayı amaçlamıştır. Bu çalışmadan önce, resaercher, Çokuluslu Şirketler için karar almada finansal tabloların rolüne odaklanmıştır, ancak finansal tablolar KOBİ'lerde önemli rol oynayabilir. Araştırmacı, araştırma sorusunu cevaplamak için nicel bir araştırma tasarımı kullandı. Veriler, Carraher ve Van Auken'den (2013) uyarlanan anket yardımıyla toplanmıştır. Araştırmacı, araştırmanın bulgularını analiz etmek için SPSS programını kullandı.

Çalışmanın sonuçları, gelir düzeyinin ve sahibin ifadeleri yorumlama kapasitelerindeki rahatlığının olumlu bir şekilde ilişkili olduğunu göstermektedir. Ayrıca, karar alma sürecinde finansal tabloların gerçek kullanımını etkileyen faktörler, eğitim düzeyi ile finansal tabloların kullanımı arasında anlamlı bir ilişki olduğunu göstermiştir. Finansal tabloları, tabloları yorumlama açısından kullanma konusunda daha rahat olan mal sahipleri tabloyu karar alma sürecinde kullanacaklardır. Finansal tabloları yorumlama konusunda kendinden emin olmayan mal sahibi, finansal tabloları karar alma sürecinde kullanmaz.

Anahtar Kelimeler: Finansal Tablolar, Karar Verme, KOBİ'ler, Sahibinin Rahatı, Finansal Okuryazarlık,

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ABBREVATIONS

FS	Financial Statement
FL	Financial Literacy
DM	Decision Making
SPSS	Statistical Program for Social Scientists

INTRODUCTION

Background of the Study

Financial statements are an important part of effective decision making in any investment. Financial statements are prepared to be used by the stakeholders for effective management of financial assets. However, firms often neglect the significance of financial statements in decision making process. The increasing significance of financial statements in investment decision making is recognized around the world for effective decision making. In comparison, Van Auken (2005) there is also a need for the owners of the firms to know the interpretation of these statements so that they can be used in decision making process. Wiklund and Shepherd (2005) also argued that weak financial management is the one leading reason of financial failure as well as stress. Coleman (2002) elaborated on the relationship between strategic goals and using financial statements.

In comparison, businesses prepare financial statements to ensure profit and loss for the organizations. Financial statements are important to outline the net growth or earnings of the organizations. Fianncial statements are important part of investment decision making. Financial statements basically provide the investors and creditors outside the company with an opportunity to get the information that help them in making decisions regarding investment in any particular firm. All firms are required to provide such information to its investors and creditors timely and regularly. Financial statements are one of the main sources of financial information for effective decision making by decision makers. Hence, great emphasis is given to the accuracy, authenticity, and relevancy on the information provided in the financial statements

Similarly, there are cash flow statemnts that are also used instead of financial statments that help in investment decision making. Cash flow statements basically represent the shift in cash and balances through the time. Movement in cash is specified by next elements: Performing activities: it is the cash flow from initial activities of a firm. Investing activities: it is the cash flow through sale as well as purchase of assets exclusive of inventories. Financial activities: it is the cash flow that is produced or spent on compensating share capital and debt within dividends and interests. Furthermore, balance sheets represents the financial place of a firm on particular time point. Balance sheets have three main elements: Assets: are things that belongs to business (business owns) and/or controls by them. Assets include inventory, machinery as well as plants etc. Liabilities: are things that a firm owes to others. Liabilities include credits, bank loans etc. Equity: is something that a firm owes to its owners.

Financial statements has a vital role and are very useful for investment decision making process in botht small and medium enterprises. Financial statements include all the important information that is needed to make financial decision for lending and investing. It is important not just to have financial information but effective deployment of such information is also fundamental to the decision making procedure. Gibson (1992) outlined that apply of financial statements in effective decision making process is fundamental and it benefits the owners, managers, and inventors. The information furnished in the financial statements must correct and useable. The wrong and manipulated financial statements cannot bring any benefit to the organization for decision making process.

Therefore, it can be observed that financial information play an effecient role in the decision creation process. Financial statement is the important tool for making private or public investment decisions in the organization. Investment decision making is one the sensitive issues that may impact the efficiency of SMEs in efforts to reduce the costs. Therefore, it is very important to consider the determinants of investment decision making in SMEs as small and medium size enterprises perform a key role in economic growth such as employment, taxes, and/or innovation (Duarte, 2004).

Consequently, Chen and Volpe (1998) examined the association that linking financial literacy to age, gender, race, nationality, income, academic disciplines, class rank and work experience. Having a financial literacy is very important in investment decision making. There are studies that reflect on the financial literacy of the investors to compare it with the investment decision making process. However, researchers found that in many cases financial literacy of the investors that invest in several domestic businesses is far beyond the needed level.

Similarly, Better (1998) argued that there are many factors that affect this financial literacy including; income level, education level, and workplace activities. Mirshekary and Saudagaran (2005) investigated the use of information provided in annual reports by different users of financial statements. The study also analyzed the importance of different sources among these users. The study included stockbrokers, bank and institutional investment officers in Tehran. The study found that investors found annual reports to be more beneficial for decision making as well as oral information and daily published share price. However, respondents of the study did not consider friend's advice and tips or rumors to be helpful for investment decision making. Hence, annual reports were considered to be used as a regular and authentic source for investment decision making (Akintoye 2002). However, Peter (2013) argued that analytical skills are very important to use the financial information for effective decision making.

Problem Statement

Financial statements perform an influential role in the decision making process. Financial statements are also important for the stakeholders because the stakeholders invest the money in the business and thus have financial risks. The existing studies focus on the apply of financial statements for decision making within large firms however, to the researcher's awareness there is no existing study that focus on the capacity and role of financial statements in the process of decision making for small as well as medium size firms (Shields, 2010). Timmons and Spinelli (2004) argued that financial statements are composed of important financial information that should be incorporated in the decision making process. However, using this information in the decision making needs expertise and skills among the decision makers so that the use of these statements can earn better results.

Consequently, Watson (2002) argued that the background of the bsuiness owners or the decision maker may influence the decision making process that involve financial statements (Van Auken, 2001). Ramano and Ratatunga (1994) and Romano et al (2001) argued that the process of decision making in the small and medium size firms can be more crucial because of limited capital and resources. Similarly, Barney (1997) argued that over confidence can further affect the decision making of the owners that involve financial decision making.

Aims of the study

The specific objectives are as follows:

1. To examin the impact of financial statement for new investors in analyzing the financial position of the business that they intend to invest.
2. To investigate the financial performance of a firm for effective decision making.
3. To determine the use of financial statements and its benefits for effective investment decision making.

Research questions

1. What are the factors affecting owner's comfort in using financial statements fro decision making?
2. What are the factors affecting actual apply of financial statements for decision making?

Hypotheses

H1: Owner's comfort to apply financial statements in decision making has a positive relationship with (a) the preparation of financial statements (internal/external)

H1: Owner's comfort to use financial statements in decision making has a positive relationship with (b) firm's total revenue.

H1: Owner's comfort to use financial statements in decision making has a negative relationship with (c) the frequency of preparation of financial statements.

H1: Owner's comfort to use financial statements in decision making has a negative relationship with (d) level of education of owner.

H2: The using of financial statements by owners for decision making has a positive relationship with (a) the comfort of owner in using the financial statement.

H2: The use of financial statements by owners for decision making has a positive relationship with (b) financial statements prepared internally.

H2: The use of financial statements by owners for decision making has a positive relationship with (c) total revenue of the firm.

H2: The use of financial statements by owners for decision making has a positive relationship with (d) the level of education of owner.

Significance of the Study

The study is significant becasue it add knowledge to the existing literature. Similarly, stakeholders are financial analysts, investors and other financial stakeholders may get a chance to enhance their profit as the imapct of financial statements is outlined for decision making in SMEs by widening their knowledge on the use of the financial statement in decision making process. Financial statements are an significant part of financial information that is used by the stakeholders of the company or firms for making financial decisions. Financial statements are prepared by thecompany’s management to represent the financial performance. These are also arranged to represent the financial stance of the company. Financial statements basically provide the investors and creditors outside the company with an opportunity to get the information that help them in making decisions regarding investment in any particular firm. All firms are required to provide such information to its investors and creditors timely and regularly. Financial statements are one of the main sources of financial information for effective decision making by decision makers.

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CHAPTER 1

LITERATURE REVIEW

1.1 Financial Statements

Financial statements are an important part of financial information that is used by the stakeholders of the company or firms for making financial decisions. Financial statements are prepared by the company's management to represent the financial performance. These are also arranged to represent the company's financial situation. Financial statements basically provide the investors and creditors outside the company with an opportunity to get the information that help them in making decisions regarding investment in any particular firm. All firms are required to provide such information to its investors and creditors timely and regularly. Financial statements are considers one of the most important elements of financial information for effective decision making by decision makers. Hence, great emphasis is given to the accuracy, authenticity, and relevancy on the information provided in the financial statements. These statements are classified into four main types including; (i) balance sheets; (ii) income statements; (iii) statements of cash flow; and (iv) statements of stakeholders' equity.

1.1.1 Statement of financial position

These are also denominated as balance sheet that illustrate the financial status of a firm on particular time period. Balance sheets have three main elements: Assets: are things that belongs to business (business owns) and/or controls by them. Assets include inventory, machinery and plants etc. Liabilities: are things that a firm owes to others. Liabilities include credits, bank loans etc. Equity: is something that a firm owes to its owners. Equity is the amount of capital remained after paying the liabilities through assets. Hence, equity is also defined as the difference between liabilities and assets.

1.1.2 Income statements

Income statements are often called as the profit and loss statement. This is also one of the ways to represent the firm's financial position and/or financial performance. This is represented in the form of net profit and/or loss in a specific period of time. Income statements have these elements: Income: it is a business return that earned throuh a period of time. It contains sales revenue, dividends etc. Expenses: it is something that a business has incurred during a specofic period of time. It take in revenues, salaries, deprecitions, and other charges. Net profit or loss is cumputed by deducting expenses from income.

1.1.3 Cash flow statements

Statements of cash flow basically outline the changes in cash balance within a particular time. Change in cash is divided into following elements: Operating activities: it is the cash flow from initial activities of a firm. Investing activities: it is the cash flow through sale and purchase of assets exclusive of inventories. Financial activities: it is the cash flow that is produced or spent on payback share capital and debt within dividends and interests.

1.1.4 Statements of changes in equity

It is also labled as the statement of retained earnings. It has detailed information about the owner’s equity movement in during a time period. The fundamental elements of this statement are; (1) it has net profit and/or loss over the time as per income statement, (2) share capital that has been generated or repaid over the time, (3) dividends, and (4) profit or loss that is directly recognized in equity for instance, revaluation surplus. Lastly, it also represents the effect of fluctuate in accounting policy and/or correction of accounting error. Figure 1 below represents the relationship between the financial statements.

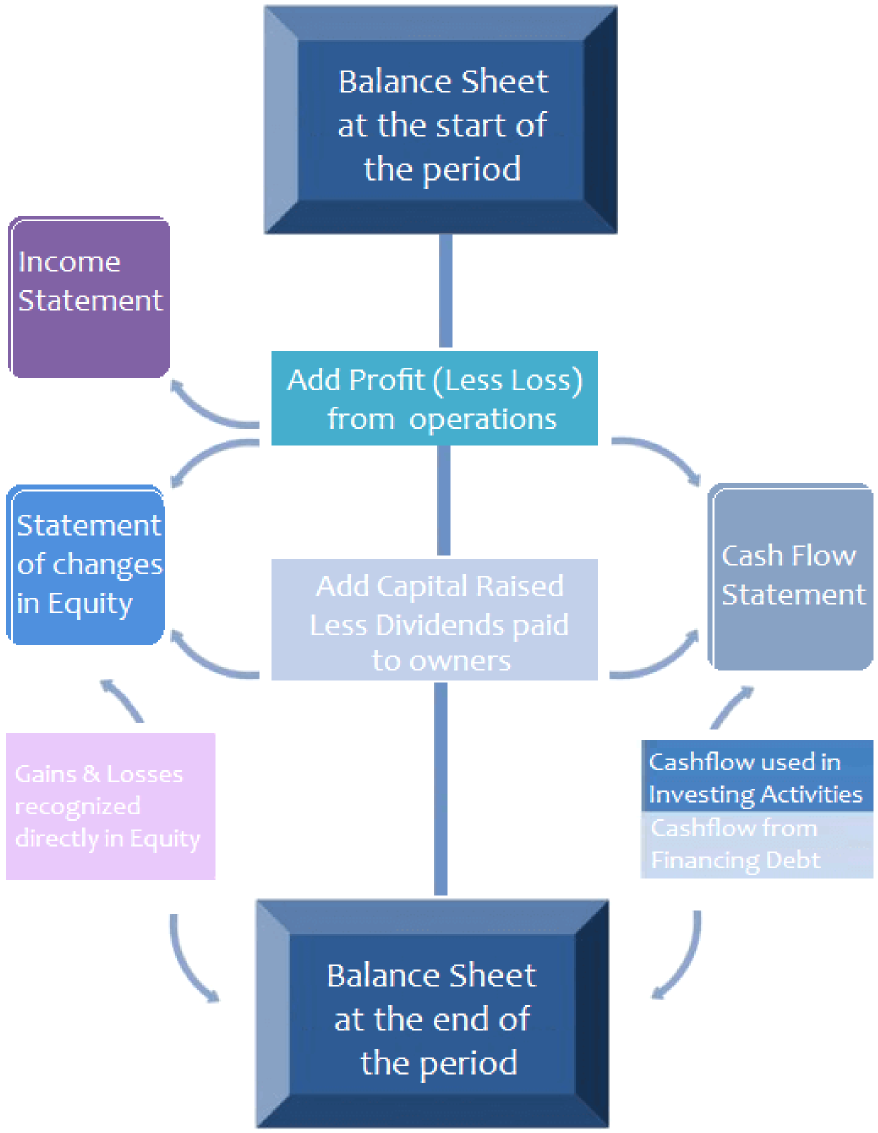

Figure 2.1: Link between financial statements

1.2 Use of Financial Statements

Financial statements perform a cucial role and are very useful for investment decision making process in small and medium enterprises. Financial statements include all the important information that is needed to make financial decision for lending and investing. It is important not just to have financial information but effective deployment of such information is also fundamental to the decision making process. Gibson (1992) outlined that using financial statements in effective decision crating process is fundamental and it benefits the owners, managers, and inventors.

Similarly, Carraher and Van Auken (2013) argued that, financial statements also allows the stakeholders to craet of financial information using for getting a clear sense of financial attitudes of a firm and evaluate the risk profile and investment opportunity as well as possibilities of a firm. However, the owners of small and medium enterprises sometimes fail to achieve maximum benefits of financial statements while making investment decisions (Vanauken, Ascigil, & Carraher, 2017). Hence, the utilization and effective utilization of financial statements does not only require timely prepared statements but also need expertise to use these precise statements for effective decision making (Horngren, Datar, Foster, Rajan & Ittner, 2009).

In comparison, investment decision making without the impressive use of these statements can cause monetary suffering and failure of company's financial goals (van Praag, 2003). Adomako, Danso, and Damoah (2015) argued that lack of financial literacy of owners' leads to the failure of owner's decision making through financial statements. They may not be able to entirely apprehend the impacts of these decisions upon the firm. Consequently, inadequate decisions can affect the growth of the firms and their financial performance (Timmons & Spinelli, 2004). Financial statements can also be used to assess the impressive of the previous or existing decisions that help in coping with the businesses in a more efficient way (Breen, Sciulli, & Calvert, 2004). Valid and accurate assessment of financial statements is fundamental to achieve the financial goals as well as to avoid failure and financial distress (Wiklund & Shephard, 2005).

Therefore, seeking an external assistance can be a better and more appropriate approach for using the financial statements effectively for investment decision making by the owners for more accurate and well informed decision making process (Winston Smith, 2011). However, Gooderham, Tobiassen, Doving, & Nordhaug (2004) outlined that owners of SMEs often avoid seeking external assistance for financial decision making that affects stimulates and sometimes accelerate the probability of failure in a firm.

Investment decision making in SMEs have become of the fundamental issues that needs research and practice. The interest in SMEs in increasing as SMEs are engines of economic growth and employment in developed and many developing countries since early 70s and 80s of 20th century. Therefore, development of new markets and expansion of low cost industries is considered as one of the main goals of developing counties. However, there is a contrasting view that growth is based on large enterprises. However, innovation and flexibility among SMEs has proven to be effective in reducing the cost and increasing the efficiency (Huang, 2009).

Investment decision making is one the sensitive issues that may impact the efficiency of SMEs in efforts to reduce the costs. Therefore, it is very important to consider the determinants of investment decision making in SMEs as small and medium size enterprises play a crucial role in economic growth such as employment, taxes, and/or innovation (Duarte, 2004). The main determinants of investment decision making in SMEs are observed to be as; (1) liquidities of securities of SMEs, (2) calculation of exact cost of capital, and (3) limited access to other sources of capital.

1.3 Financial Literacy and Investment Decision Making

Financial literacy is studied from many different aspects. In many developed countries, public and private organizations have conducted surveys that help in measuring the financial literacy of the people. OECD (2005) reviewed financial literacy among USA, UK, Australia, Japan and some European countries. The results of the study outlined that some surveys conducted in these countries demonstrated very low financial literacy among the population. Similarly, Chen and Volpe (1998) carry out a study to inquire the impact of age on financial literacy, as well as gender, race, nationality, income, academic disciplines, work experience and class of individuals. The study was conducted among 924 college studies studying in 13 different campuses in USA. The study found that academic disciplines, class rank, and work experience were significant correlated with the financial literacy whereas, students from non-business major had comparatively lower financial literacy.

Having a financial literacy is very important in investment decision making. There are studies that reflect on the financial literacy of the investors to compare it with the investment decision making process. However, researchers found that in many cases financial literacy that invest in several local businesses is far beyond the needed level. Similarly, there are many factors that affect this financial literacy including; (1) income level, (2) education level, and (3) workplace activities. It is also noticed that those investors with higher educational degrees like banking and finance often have comparatively high financial information which can be used for effective investment decision making process. Investment decision making in SMEs have become of the fundamental issues that needs research and practice. The interest in SMEs in increasing as SMEs are engines of economic growth and employment in developed and many developing countries since early 70s and 80s of 20^{th} century.

Therefore, development of new markets and expansion of low cost industries is considered as one of the main goals of developing counties. However, there is a contrasting view that growth is based on large enterprises. However, innovation and flexibility among SMEs has proven to be effective in reducing the cost and increasing the efficiency (Huang, 2009). In comparison, it is argued that factors like age but gender is also considered as one of the fundamentals to demonstrate the different levels of financial literacy among investors. It is argued that women in comparison to men have a lower financial literacy that may be affected by many other factors. However, religious reasons and rumors may also have a significant impact on investment decision making (Hassan Al-Tamimi, & Anood Bin Kalli, 2009).

Volpe et al. (2002) outlined that financial literacy is crucial to online investors as compared to normal investors to be successful in securities markets. Financial literacy in such a context is important because online investors are more vulnerable to financial misinformation and manipulation. The study include 530 online investors to examine their financial literacy as well as difference between the level of financial literacy and gender, age, education, experience and income of the participants. The study found that gender, age, experience, and education varied across investors. Women in particular had lower financial literacy as compared to older men with more experience. Similarly, participants with higher income had high financial literacy as compared to those with low income. Lastly, participants with higher education level had greater financial literacy as compared to those with lower educational qualifications.

Mirshekary and Saudagaran (2005) investigated the use of information provided in annual reports by different users of financial statements. The study also analyzed the importance of different sources among these users. The study included stockbrokers, bank and institutional investment officers in Tehran. The study found that investors found annual reports to be more helpful for decision making as well as oral information and daily published share price. However, respondents of the study did not consider friend's advice and tips or rumors to be convenient for investment decision making. Hence, annual reports were considered to be used as a regular and authentic source for investment decision making.

Volpe and Chen (2006) conducted a survey 212 administrators in the US-based organizations. The study aimed to assess the personal finance issues among employed individuals and their level of financial literacy. The study outlined that investment and planning were least significant areas. Specifically, mutual fund prospectus and expense ratios were among least important topics and also least knowledgeable. Hence, it was concluded that the level of knowledge among these employing adults was comparatively low. The study also analyzed the importance of different sources for information. The study included stockbrokers, bank and institutional investment officers in Tehran. The study found that investors found annual reports to be more helpful for decision making as well as oral information and daily published share price

Al-Tamimi (2006) examined the most influential and least influencial factors on the behavior of UAE investors. The study conducted a survey among 343 individual investors. The results of the study found that earnings, marketability of stocks, getting rich quickly, state capital, and hitorical performance of company's stock were among most influential factors in shaping the behavior of investors. However, these instincts and experiences were analyzed as well as the movement of international markets for taking particular financial decisions. In comparison, market portfolio was not considered in the decision making. However, the results also demonstrated that religious reasons and opinions of friends and family were least influential factors that shaped the behavior of the investors.

Maditinos et al. (2007) investigated the methods and techniques used by Greek investors. The study conducted a survey among six various groups of investors including official members of Athens Stock Exchange, mutual fund management and portfolio investment companies, groups of brokers and individual investors. The results of the study outlined that instincts and experience of participants were among most commonly used techniques used for investment decision making. However, these instincts and experiences were analyzed as well as the movement of international markets for taking particular financial decisions. In comparison, market portfolio was not considered in the decision making. The study outlined that investment and planning were least significant areas. Specifically, mutual fund prospectus and expense ratios were among least important topics and also least knowledgeable. Hence, it was concluded that the level of knowledge among these employing adults was comparatively low. The study also analyzed the importance of different sources for information.

Thus, it can be claimed that the relationship between financial literacy and invest decision making is very strong as well as crucial. The studies revealed that despite the level of economic development in any country level of financial literacy may differ among population. Similarly, financial literacy and demographic variables are also related. There is a significant relationship among the financial literacy and education degree, income, education, age and gender. Highly educated investors adopted different strategies for investment decision making than those with low educational level. Financial publications are preferred by literate investors whereas; family and friend advice was preferred by low-literate investors. Individual investors relied on stockbrokers, rumors, instincts, and newspapers for making investment decisions while others depended on authentic sources like annual reports.

1.4 Relationship between Investment Decision and Financial Performance in SMEs

Small and medium size enterprises are characterized by their size so the decisions that these enterprises make does influence their financial performance. This is because a small enterprise is comprised of less physical assets as compared to the large enterprise. Hence, a small enterprise has less assets to secure their loans that can be used to finance their investment decisions. Therefore, these firms are at a disadvantaged position as compared to their larger counterparts with various numerous assets to back their investment decisions (Cohen & Klepper, 1996). Ultimately, lack of assets and failure to back their investment decisions can lead to poor financial performance and poor optimization of investment decision making in SMEs.

According to Tybout (1983), inadequate availability of liquidity and lack of access to capital market, SMEs do not get a chance to obtain quick cash to invest in profitable opportunities. Most SMEs depend on savings and loans that are usually conditioned strictly also influence the future investments of SMEs (Ogujiuba, Ohuche, & Adenuga, 2004). Hence, the terms under which loans and credits are provided to the SMEs does not only impact the investment decision but it also restricts the further access to credit opportunities (Fatoki & Smit, 2011). The results of the study outlined that instincts and experience of participants were among most commonly used techniques used for investment decision making. However, these instincts and experiences were analyzed as well as the movement of international markets for taking particular financial decisions.

However, expected output and demand is also among the issues that may influence the investment decisions of SMEs. Similarly, expected output and demand has also an impact on the financial performance of these SMEs.

According to Levasseur (2002), competitive pressure from the firms operating in other industries can be dealt with the help of investment with regard to expectations of the market in which the firm is operating. Hence, it is important for the firm to maintain and optimize the expected sales performance to ensure profitability and growth. This is also fundamental for the sustenance of the firms in a competitive market. SMEs are fundamental to the global development.

Centralized form of leadership is followed by most SMEs where the personal decisions taken by the owner influence the investment decisions and so does influence the financial performance of the firm (Akintoye & Olowolaju, 2008). The decision making process in large firms is more structured and are based on the rules of the company thus, the investment decisions are directed in an organizational form (Matsushima & Takechiz, 2009). SMEs also lack proper technology and equipments and expertise that help in effective investment decision making process whereas, the skills and interests of the owners shape the investment decision making process in SMEs (Harindranath, Dyerson, & Barnes, 2008).

Ejembi and Ogiji (2007) outlined that, the investment decisions taken by SMEs are surrounded by various uncertainties so they are more sensitive to financial performance. There are various levels of risks that businesses may encounter as well as there are different perceptions to these risks. However, these risks are also related to the knowledge of the investors as they make investment decisions. The knowledge and skills of the investors with some underlying issues ultimately impact the investment outcomes in firms. Thus, investors may be risk taking or they are risk reluctant while they make investment decisions. Therefore, risk nature is very important in SMEs context because decision making is centralized and outcomes depend on the nature of the decision maker.

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CHAPTER 2

METHODOLOGY

2.1 Research design

The study adopted a quantitative research design to collect and examine data collected from a sample of 60 owners and stakeholders of small and medium size enterprises in Dohuk (Iraq). Quantitative research is an authentic approach that involves deductive reasoning as logic to answer the research questions and hypotheses that have been developed. These hypotheses are then tested and affirmed as the collected data is analyzed (Amarutanga et al., 2002). A quantitative questionnaire was used to collect data from the participants of the study. The questionnaire was based on the main research query and the responses were therefore used to answer the main study question. The written questionnaire was distributed among the participants and the data was collected as it is (Etikan, Musa, & Alkassim, 2016). The researcher distributed 60 questionnaires among different owners of SMEs in Iraq and 60 were returned back that were completed successfully the participants. Each participant took around 15-20 minutes to complete the questionnaire. The researcher made sure that all the questions are answered and the participants understood the question well. There are many factors that influence the efficiency of investment decision making but in this study the researcher only focused on financial statements role in effective investment decision making process.

Hence, the study is limited to financial statements only and the aim of the research was to analyze how financial statement help new investors in analyzing the financial position of the business. Lastly, the study focused on appraising the principle use of financial information for investment related process of making decisions.

2.2 Sample and Sampling

A total of 60 firm owners of SMEs were taken as sample of the study. The firms were located in the city of Dohuk in Iraq. The sample size of the study was determined through convenient sampling technique. Convenient sampling technique is defined by Etikan, Musa and Alkassim (2016) as a non-probability sampling that is based on drawing the population close to the hand from a huge part of population. The researcher used convenient sampling technique to avoid the problems that may be caused using randomized sampling. Out of 60 participants of the study 85 were males and 15 were females that imply there are more male owners of SMEs in Dohuk than females (see Table 1).

Table 1: Gender Profile

Variable	Description	Responses	Percentage
Gender	Male	52	86.00%
	Female	8	13.00%
	Total	**60**	**100**

2.3 Materials and Data Collection

The data was collected using a questionnaire. The questionnaire was adopted by Carraher and Van Auken (2013). The questionnaire consisted of two parts. The first part comprised of demographic information regarding the owner and the firm including; firm age, type, structure, and income. The researcher also included the gender of the participants as shown in (Appendix A). The second part of the questionnaire comprised of questions regarding financial statement's use in the decision making process. The section also included how oftentimes the financial statements are arranged, accuracy of these statements and the ability of the owner to comprehend these statements in the decision making process. The response rate was achieved as 100%.

2.4 Procedures

2.4.1 Depenednt variables

In this study, two dependent variables were used with two different regressions. One of the dependent variables was comfort of owners for adopting financial statements in decision making process. It was measured through a Likert scale of point 7 (1 = not comfortable, 7 = very comfortable). Comfort was defined as their expertise to understand the information given in the financial statement that could help in decision making. Financial statements include balance sheet, income statements, expenses and sales forecast as well as cash budget. Second variable (dependent) was the actual use of financial statements in decision making process. It was measured by yes or no (1 = yes, 0 = no).

2.4.2 Independent variables

The explanatory variables used in the study included financial aspects of the firm. This measn frequency of the arrangment of financial statements using 4 option (1= never, 2 = monthly, 3 = quarterly, 4 = annually). The second independent variable of the study was the weather financial statements are prepared externally or internally (1 = internally, 0 = externally). These independent variables were taken against the dependent variable (owner's comfort in using financial statement) for first regression analysis.

The independent variable for the 2nd regression analysis was to what extent the owners are comfortable with the capacity to explain the financial statements. The variable was measured with a Likert scale of point 7 (1 = not comfortable, 7 = very comfortable). This independent variable was taken against the dependent variable (actual using of financial statements in the process of decision making). Similarly, the preparation of financial statements (1 = internally, 0 = externally) was the second control variable.

2.4.3 Control variables

The explanatory variables used in this research were total revenue of the firm for last year (1 = <$10,000, 2 = $10,001-$50,000, 3 = $50,001-$100,000, 4 = more than $100,000). Revenue was taken as a control variable in this study because revenue may impact the decision making. Carter and Van Auken (2008) argued that firms with higher revenues or financial status are more likely to influence the financial process as compared to firms with low financial status. The level of education of owners was also taken as a control variable (1 = high school, 2 = bachelor's, 3 = graduate degree). Level of education was taken as a control variable because Cassar (2004) suggested that firms with higher human capital tend to have great firm capability.

The data collected from questionnaire was firstly summarized by univariate statistics for better understanding of the respondents and characteristics. Percentages were determined for each category including the demographics. T-tests were also obtained to compare the responses of owners that used and that did not use the financial statements for investment decision making.

Similarly, regression analysis was also conducted as this is common when conducting entrepreneurship research. This is considered as one of the most suitable approach to determine and understand the relationship between the variables of the study. This is also to determine how a dependent variable change as variance in independent variable is observed.

Furthermore, linear and logistic regression analysis was also applied to demonstrate the association between independent and explained variables. Regression analysis helps in understanding how change in independent variables causes effect in dependent variables. This study used two regression models. The first model is linear regression that focused on owner's comfort by applying financial statements (dependent variable) and the second model focused on owner's actual use of these financial statements (dependent variable). The researcher took level of education as a control variable. Owner's comfort by using financial statements for decision making are the dependent variables. The independent variables in the study were revenue, financial statements arranged internally or externally, and how often are these statements prepared. The second logistic regression model focused on analyzing the relationship between the actual use of financial statements by owners for decision making as dependent variable and level of revenue, the comfort of owner in interpreting these statements for decision making as independent variables. Education was taken as a control variable. The regression models were as below:

OC = $a_0 + b_1$ Preparation + b_2 Frequency + b_3 Revenue + b_4 Education,

UD = $a_0 + b_1$ Owner's comfort + b_2 Preparation + b_3 Revenue + b_4 Education,

Where:

OC = owner's comfort in using financial statements for decision making

UD = actual use of financial statements for decision making

Preparation = financial statements are prepared internally or externally

Revenue = firm's total revenue

Frequency = how regularly the statements are prepared

Education = level of education of owner

2.5 Ethical approval

The researcher made certain that all ethical standards are strictly ensured. The personal information of the participants was kept confidential and was only accessible to the researcher. The findings of the study did not disclose any confidential or personal information of the company or owner. The researcher collected the data after the ethical approval from the Ethics Committee of the Near East University (see Appendix). The questionnaire was distributed after the written consent of the participants and researcher did not force or bribe any participant to take part in the research.

CHAPTER 3

FINDINGS AND DISCUSSIONS

3.1 Findings

3.1.1 Respondent characteristics

The characteristics of respondents are presented in Table 3 according to the pre-defined category. The participants of the study with high school diploma were observed to be 49%, participants with undergraduate degree were 33%, participants with graduate degree were 13%, and other level of education was 5%. Most respondents of the study were males with 85% as compared to women constituting 15%. 58% of firms were sole proprietors as per the legal structure of their business, 18% were partnership, 8% firms were s-corporations and 16% firms were corporations. The type of business included services 34%, retailers 43%, agriculture 18%, manufacturing 3% and other 2%. The huge number of responding companies had total assets recorded as more than $100,300 that is like 33%. Similarly, the total revenue for most firms was more than $100,000 that is 39% among a variety of categories.

Table 1.

Participant characteristics

Educational Level	**Percentage**
High School	49
Undergraduate	33
Graduate	13
Other	5
Gender	
Male	85
Female	15
Type of Business	
Services	34
Retailers	43
Agriculture	18
Manufacturing	3
Other	2
Legal Structure	
Sole proprietor	58
Partnership	18
S-corporation	8
Corporation	16
Total Assets	
>$100,000	33
Revenue	39
>$100,000	

The level of eduction and revenue as shown in the literature review has an imapct on the decision making. The owners with more knowledge of fianncial statements and their use in the decision making. Similarly, the revenue and total assets of the firm also have an impact on the use of fiancial statements in decision making. The characteristics of the participants show that there is more number of owners that are high school and undergraduate.

3.2 Analysis

The data was analyzed through univariate statistics to describe the feaures of the participants of the study. The researcher presented the percentages for education level, gender, kind of the business, number of assets, and revenues. The researcher conducted t-test of differences and compared the responses of owners that used financial statements and that did not use financial statements. The correlation analysis was also conducted as shown in Table 4.2 and 4.3 to represent the relation that linking explanatory variable and control variables. The correlation analysis is a non-parametric analysis that helps in case of uncertainty about the distribution of population.

Table 2:

Spearman correlation for comfort level of owners in using financial statements (dependent variable) (n= 100).

Variables	Responsibility	Educational background	Financing	Revenue
Preparation of statements	1			
Educational background	.051	1		
Frequency of statements	-.221	-.051	1	
Revenue	.053	.138	-.354	1

Table 3.

Spearman correlation for use of financial statements in decision making process (Dependent Variable) (n= 100)

Variables	Responsibility	Education level of owners	Comfort level of owners in interpreting	Revenue
Preparing statements	1			
Education level of owners	.121	1		
Comfort level of owners in interpreting	-.038	.132	1	
Revenue	.189	.142	.323	1

3.3 Comfort of owner in using financial statements

The results of regression analysis are presented in Table 4.4. The analysis outline that (F = 10.22, significance at 1% with R^2 = .1606) for comfort of owner by using financial statements for decision making as the explained variable. The results of the analysis show that revenue is directly related with comfort of owner by using financial statements. Thus, it is may be suggested that company owners with high revenue are more sensitive to owners with low revenues. This is because, risk exposure and high asset bases, this can induce owners to use financial statements in comparison to firms with low risk exposure and assets supporting our H1(b).

Table 4:

Linear regression analysis for owner's comfort level and use of statements

Variables	Coefficients
Interception	5.01***
Preparation of financial statements	-0.223
Revenue of firm	0.165**
Frequency of preparation	-0.165***
Education level of owners	0.132

F = 10.22

**** Significance at 5%**

***** Significance at 1%**

Similarly, the frequency of preparation that is to what extent the financial statements are prepared has coefficient of -0.223 at 1% Sig. It was negatively related with owners' comfort in using financial statements. Hence, it shows that more frequently prepared financial statements, less confident will be owners to interpret these statements. In comparison, the owners will be more confident in their interpretation if they do not prepare statements frequently. Therefore, the frequency of preparing financial statements has a significant relationship with the owner's comfort in using these statements for decision making process that supports H1(c). Lastly, the results of regression analysis show that education level of owners and preparation of statements internally or externally have no significant impact on the comfort of owner in using financial statements. Thus, H1 will be rejected (a) and (d).

3.4 Financial statements used in decision making

The regression analysis was also conducted to find whether or not financial statements are used in decision making process by firm owners. The researcher conducted logistic regression so there was no equivalent measure hence there is no reporting of R-square value. The results of the regression are outlined in Table 4.5 that shows comfort coefficient = .0553 at 1% significance. This means that comfort of owners has a direct relation with their use of financial statements. This means that the results support H2 (a) of the study. Thus, the owners will use financial statements in decision making if they are confident enough to interpret these statements. The owners that are not confident to use these statements will not be confident to use to these statements in decision making process.

Table 5.

Regression for FSs use in DM

Variables	Coefficient
Interception	4.834***
Comfort of owners	.0553***
Preparation of statements	-0.012**
Revenue of the firm	-0.312
Education level of owner	0.434***

Furthermore, the preparation of financial statements was observe to have coefficient = -0.012 at 5% significance demonstrating negative relationship with use of financial statements. This means that owners are more comfortable in using the externally prepared statements for decision making that supports H2 (b) of the study. Level of education with coefficient = 0.434

at 1% Sig. has a direct relationship with the owner's use of financial statements that supports H2 (d) of the study. Thus, owners that have high education level used financial statements in decision making while owners will low education level rarely used financial statements for decision making. Lastly, the total revenue has no significant relationship with use of financial statements that means H2 (c) of the study is not supported by the results.

3.5 Discussions

Financial statements are an impressive part of effective decision creating in any investment. Financial statements are prepared to be used by the stakeholders for effective management of financial assets. However, firms often neglect the significance of financial statements in making decision process. The increasing significance of financial statements in investment decision making is recognized around the world for effective decision making. In comparison, Van Auken (2005) there is also a need for the owners of the firms to know the interpretation of these statements so that they can be used in decision making process. Wiklund and Shepherd (2005) also argued that weak financial administration is one of the leading causes that has a big share of financial failure and stress. Coleman (2002) elaborated on the relationship between strategic goals and the use of financial statements. Financial statements play an important role and are very useful for investment decision making process in small and medium enterprises. Financial statements include all the important information that is needed to make financial decision for lending and investing. It is important not just to have financial information but effective deployment of such information is also fundamental to the process of making decision. Gibson (1992) outlined that use of financial statements in effective decision making process is fundamental and it benefits the owners, managers, and inventors.

Carraher and Van Auken (2013) argued that, financial statements also allows the stokeholders to compel apply financial information for getting a clear sense of financial aspects of a firm and evaluate the risk profile and investment opportunity as well as possibilities of a firm. However, the owners of small and medium enterprises sometimes fail to achieve maximum benefits of financial statements while making investment decisions (Vanauken, Ascigil, & Carraher, 2017). Hence, the utilization and effective utilization of financial statements does not only require timely prepared statements but also need expertise to use these precise statements for effective decision making (Horngren, Datar, Foster, Rajan & Ittner, 2009). Adomako, Danso, and Damoah (2015) argued that lack of financial literacy of owners' leads to the failure of owner's decision making through financial statements. They may not be able to entirely capture the impact of these decisions upon the firm. Consequently, inadequate decisions can affect the growth of the firms and their financial performance (Timmons & Spinelli, 2004). Financial statements can also be used to assess the effects of the previous or existing decisions that help in coping with the businesses in a more efficient way (Breen, Sciulli, & Calvert, 2004)

The findings of the present study contribute great comprehension into the use of financial statements by SME owners. The study concentrated on two main prospects of using financial statements; comfort of owners in using financial statements and even if the owners are using financial statements in decision making. The findings of the study suggest that the confidence of owners towards using financial statements influence in such a way how frequently these statements have been used. This means that more comfortable is owner in using the financial statements, more often the owner will involve these statements in process of the decision making. The consquence of this study are aligned with Shields (2010), Timmons and Spinelli (2004). They argued that the goodness of financial information has an effect on their implementation for decision making.

The outcomes of the study reveal that the level of revenue and the comfort of owner in their capacity to interpret the statements are positively related. The results of the present study are aligned with Neelay and Van Auken (2010) that argued that the size of firm influence the decision making in line with the dependence of firm on financial information for decisions making. This means that owners of huge firms are more comfortable in making decisions because of their high revenues as compared to owners of firms with low revenues.

Furthermore, the factors that influence the actual use of financial statements in decision making process showed significant co-integration (relationship) among level of education and the use of financial statements. The outcomes of present study are aligned with Carter et al. (2003) and Cassar (2009) that found significant association among level of education and the success of firm (Hanlon & Saunders, 2007). Having a financial literacy is very important in investment decision making. There are studies that reflect on the financial literacy of the investors to compare it with the investment decision making process. However, researchers found that in many cases financial literacy of the investors that invest in several local businesses is far beyond the needed level. Similarly, there are many factors that affect this financial literacy including; (1) income level, (2) education level, and (3) workplace activities. It is also noticed that those investors with higher educational degrees like banking and finance often have comparatively high financial information which can be used for effective investment decision making process. In comparison, it is argued that factors like age but gender is also considered as one of the fundamentals to demonstrate a significant difference in the level of financial literacy among investors. It is argued that women in comparison to men have a lower financial literacy that may be affected by many other factors. However, religious reasons and rumors may also have a significant impact on investment decision making (Hassan Al-Tamimi, & Anood Bin Kalli, 2009).

The finding of the study are also alinged with Barberis and Thaler (2002) that investigated the linking among the financial statements using and the comfort's of the owners in using financial statements. The owners that are further comfortable in using the financial statements in terms of interpreting the statements will use the statement in the process of decision making. İn the other hand, the owners would not use the financial statements in the process of decision making since they are not confident in interpreting the financial statements would not use. This means that if the owners will understand the information provided in the financial statements only then they will be able to value this information for decision making.

However, Ritter (2003) argued that the personal analysis and opinion of owners also influence their use of financial statements in decision making. Similalrly, Maditinos et al. (2007) outlined that instincts and experience of participants were among most commonly used techniques used for investment decision making. However, these instincts and experiences were accompanied by essential analysis as well as the shift of international markets for taking particular financial decisions. In comparison, market portfolio had not been taken into the account while decisions making. Thus, it can be argued that the relation among financial literacy and invest decision making is very strong as well as crucial. There is a keen conection among the financial literacy and level of education, income, education, age and gender. Highly educated investors adopted different strategies for investment decision making than those with low level of education. Financial publications are preferred by literate investors whereas; family and friend advice was preferred by low-literate investors. Individual investors relied on stockbrokers, rumors, instincts, and newspapers for making investment decisions while others depended on authentic sources like annual reports

Breen, Sciulli, and Calvert (2004) argued that the internal and external mode of preparing financial statements also impact the use of financial statements. Some firms lack expertise to develop financial statements that are reliable therefore, such firms seeks external expertise to develop financial statements. The results of present study are aligned with Shields (2010) that the firm owners seeking external expertise are more confident in using financial statements for decision making. Hence, seeking an external assistance can be a better and more appropriate approach for applying the financial statements effectively for the process of investment decision making by the owners for more accurate and well informed decision making process (Winston Smith, 2011). However, Gooderham, Tobiassen, Doving, & Nordhaug (2004) outlined that owners of SMEs often avoid seeking external assistance for financial decision making that affects stimulates and sometimes accelerate the probability of failure in a firm.

CONCLUSION AND RECOMMENDATION

Summary

Financial statements are an initial part of financial information that is used by the stakeholders of the company or firms for making financial decisions. Financial statements are prepared by the company's management to represent the financial performance. These are also prepared to represent the company's financial stance. Financial statements basically provide the investors and creditors outside the company with an opportunity to get the information that help them in making decisions regarding investment in any particular firm. All firms are required to provide such information to its investors and creditors timely and regularly. Financial statements are one of the main sources of financial data for effective decision making by decision makers. Hence, great emphasis is given to the accuracy, authenticity, and relevancy on the information provided in the financial statements. Financial statements are classified into four main types including; (i) balance sheets; (ii) income statements; (iii) cash flow statements; and (iv) statements of stakeholders' equity.

Thus, it can be argued that the relations between financial literacy and invest decision making is very strong as well as crucial. The studies revealed that despite the level of economic development in any country level of financial literacy may differ between population. Similarly, financial literacy and demographic variables are also related. There is a potent relation among the financial literacy and level of education, income, and education. Highly educated investors adopted different strategies for investment decision making than those with low level of education. Financial publications are preferred by literate investors whereas; family and friend advice was preferred by low-literate investors. Individual investors relied on stockbrokers, rumors, instincts, and newspapers for making investment decisions while others depended on authentic sources like annual reports.

Investment decision making is one the sensitive issues that may impact the efficiency of SMEs in efforts to reduce the costs. Therefore, it is very important to consider the determinants of investment decision making in SMEs as small and medium size enterprises perform a significant role in economic growth such as employment, taxes, and/or innovation (Duarte, 2004). The main determinants of investment decision making in SMEs are observed to be as; (1) liquidities of securities of SMEs, (2) calculation of exact cost of capital, and (3) limited accession to additional sources of capital.

Financial statements play a substantial role in the decision making process. Financial statements are also important for the stakeholders because the stakeholders invest the money in the business and thus have financial risks. The existing studies focus on the use of financial statements for decision making within large firms however, to the researcher’s awareness there is no existing literature that focus on the role of financial statements in decision making for small and medium size firms (Shields, 2010). Timmons and Spinelli (2004) argued that financial statements are composed of important financial information that should be incorporated in the decision making process. However, using this information in the decision making needs expertise and skills among the decision makers so that the use of these statements can earn better results. Consequently, Watson (2002) argued that the background of the bsuiness owners or the decision maker may influence the decision making process that involve financial statements (Van Auken, 2001). Ramano and Ratatunga (1994) and Romano et al (2001) argued that the process of decision making in the small and medium size firms can be more crucial because of limited capital and resources. Similarly, Barney (1997) argued that over confidence can besides impact the decision making of the owners that involve financial decision making.

The study answered two main questions (1) what are the factors affecting owner's comfort by using financial statements fro decision making? (2) what are the factors affecting actual financial statements using for decision making? The researcher proposed that: owner's comfort to use financial statements in the process of decision making has a positive relationship with (a) the preparation of financial statements (internal/external). Owner's comfort to use financial statements in decision making has a positive relationship with (b) firm 'stotal revenue. Owner's comfort to use financial statements in decision making has a negative relationship with (c) the frequency of preparation of financial statements. Comfortable of the owner's to use financial statements in decision making has a negative relationship with (d) level of education of owner. The use of financial statements by owners for decision making has a positive relationship with (a) the comfort of owner in using the financial statement. The use of financial statements by owners for decision making has a positive relationship with (b) financial statements prepared internally. The use of financial statements by owners for decision making has a positive relationship with (c) total revenue of the firm. The use of financial statements by owners for decision making has a positive relationship with (d) the level of education of owner. Thus, the aim of the study was (1) to explore the impact of financial statement for new investors in analyzing the financial position of the business that they intend to invest. (2) to investigate the financial performance of a firm for effective decision making. (3) to determine the use of financial statements and its benefits for effective investment decision making..

CONCLUSION

Comfort of owner in using financial statements

The confidence of owners towards using financial statements affects how frequently these statements are used. This means that more comfortable is owner in using the financial statements, more often the owner will involve these statements in decision making. They argued that the quality of financial information has an effecient on their implementation for decision making. The level of revenue and the comfort of owner in their capacity to interpret the statements are positively related. The size of firm affects the decision making and the dependence of firm on financial information for making decisions. This means that owners of huge firms are more comfortable in making decisions because of their high revenues as compared to owners of firms with low revenues. The results of the analysis show that revenue is directly related with comfort of owner in using financial statements. Thus, it is may be suggested that company owners with high revenue are more sensitive to owners with low revenues. This is because, risk exposure and high asset bases, this can induce owners to use financial statements in comparison to firms with low risk exposure and assets supporting our H1(b). The results of the analysis show that revenue is directly related with comfort of owner in using financial statements. Thus, it is could be suggested that company owners with high revenue are more sensitive to owners with low revenues. This is because, risk exposure and high asset bases, this can induce owners to use financial statements in comparison to firms with low risk exposure and assets.

More frequently prepared financial statements, less confident will be owners to interpret these statements. In comparison, the owners will be more confident in their interpretation if they do not prepare statements frequently. Therefore, the frequency of preparation of financial statements has a significant relationship with the owner’s comfort in using these statements for decision making process that supports H1(c). Carraher and Van Auken (2013) argued that, financial statements also allows the stakeholders to make use of financial information for getting a clear demonistrating of financial prospects of a firm and evaluate the risk profile and investment opportunity as well as possibilities of a firm. However, the owners of small and medium enterprises sometimes fail to achieve maximum benefits of financial statements while making investment decisions (Vanauken, Ascigil, & Carraher, 2017). Hence, the utilization and effective utilization of financial statements require timely prepared statements and expertise to use these precise statements for effective decision making (Horngren, Datar, Foster, Rajan & Ittner, 2009).

Furthermore, the factors that influence the actual financial statements using in decision making process showed significant relations among level of education and the use of financial statements. It is found that there is a association among level of education and the success of firm. Lastly, the results of regression analysis show that education level of owners and preparation of statements internally or externally have no significant impact on the comfort of owner in using financial statements. Thus, H1 will be rejected (a) and (d).

Financial statements used in decision making

The regression analysis was also conducted to find whether or not financial statements are used in decision making process by firm owners. The researcher conducted logistic regression so there was no equivalent measure hence there is no reporting of R-square value. This means that comfort of owners has a direct relation with their use of financial statements. This means that the results support H2 (a) of the study. Thus, the owners will use financial statements in decision making if they are confident enough to interpret these statements. The owners that are not confident to use these statements will not be confident to use to these statements in the process of decision making.

Furthermore, the preparation of financial statements was observe to have negative relationship with use of financial statements. This means that owners are more comfortable in using the externally prepared statements for decision making that supports H2 (b) of the study. Level of education has a direct relations with the owner's use of financial statements that supports H2 (d) of the study. Thus, owners that have high education level used financial statements in making decision while owners will low education level rarely used financial statements for making decision. Lastly, the total revenue deos not have a significant relations with use of financial statements that means H2 (c) of the study is not supported by the results. There is existent relations ammong the use of financial statements and the comfort of the owner's in using financial statements. The owners that are comfortable by using the financial statements in terms of interpreting the statements will use the statement in decision making process. The owner that are not confident in interpreting the financial statements would not use the financial statements in the decision making process. This means that if the owners will understand the information provided in the financial statements only then they will be able to value this information for decision making. However, the personal analysis and opinion of owners also influence their use of financial statements in decision making. The internal and external mode of preparing financial statements also impacts the use of financial statements. Some firms lack expertise to develop financial statements that are reliable therefore, such firms seeks external expertise to develop financial statements. The firm owners seeking external expertise are more confident in using financial statements for decision making.

Financial statements are an influential part of effective decision making in any investment. Financial statements are prepared to be used by the stakeholders for effective management of financial assets. However, firms often neglect the significance of financial statements in decision making process. The increasing significance of financial statements in investment decision making is recognized around the world for effective decision making. In comparison, Van Auken (2005) there is also a need for the owners of the firms to know the interpretation of these statements so that they can be used in decision making process. Wiklund and Shepherd (2005) also argued that weak financial management is one of the leading reason of financial failure and stress. Coleman (2002) elaborated on the relationship between strategic goals and the use of financial statements.

Carraher and Van Auken (2013) argued that, financial statements also allows the stakeholders to make use of financial information for getting a clear vision of financial prospects of a firm and evaluate the risk profile and investment opportunity as well as possibilities of a firm. However, the owners of small and medium enterprises sometimes fail to achieve maximum benefits of financial statements while making investment decisions (Vanauken, Ascigil, & Carraher, 2017). Hence, the utilization and effective utilization of financial statements does not only require timely prepared statements but also need expertise to use these precise statements for effective decision making (Horngren, Datar, Foster, Rajan & Ittner, 2009).

The findings of the present study provide great insight into the use of financial statements by SME owners. The study concentrated on two main prospects of financial statement using; comfort of owners in using financial statements and even if the owners are using financial statements in making decision. The findings of the study suggest that the confidence of owners towards using financial statements influence how frequently these statements are used. This means that more comfortable is owner in using the financial statements, more often the owner will involve these statements in decision making. The results of this study are aligned with Shields (2010), Timmons and Spinelli (2004). They argued that the quality of financial information has an effect on their implementation for making decision.

The outcomes of the study indicate that the level of revenue and the comfort of owner in their capacity to explain the statements are directly related. The results of the present study are aligned with Neelay and Van Auken (2010) that argued that the size of firm affects the decision making and the dependence of firm on financial information for decisions making. This means that owners of huge firms are more comfortable in making decisions because of their high revenues as compared to owners of firms with low revenues.

Furthermore, the factors that influence the actual use of financial statements in decision making process showed significant relationship between level of education and the use of financial statements. The outcomes of present study are aligned with Carter et al. (2003) and Cassar (2009) that found significant relations among level of education and the success of firm (Hanlon & Saunders, 2007). Breen, Sciulli, and Calvert (2004) argued that the internal and external mode of preparing financial statements also impact the use of financial statements. Some firms lack expertise to develop financial statements that are reliable therefore, such firms seeks external expertise to develop financial statements. The results of present study are aligned with Shields (2010) that the firm owners seeking external expertise are more confident in using financial statements for decision making.

The outcomes of the study are also alinged with the Barberis and Thaler (2002) that investigated the association among the use of financial statements and the owner's comfort in using financial statements. The owners that are further comfortable in financial statement using in terms of interpreting the statements will use the statement in decision making process. The owner would not use the financial statements in the decision making process since they are not confident in interpreting the financial statements. This means that if the owners will understand the information provided in the financial statements only then they will be able to value this information for decision making. However, Ritter (2003) argued that the personal analysis and opinion of owners also influence their use of financial statements in decision making.

Recommendations

Depend on the findings and outcomes of the stuyd following recommendations can be made:

1. The use of financial statements is important in the firm decision making process.
2. The fiancial statements prepared externally gives more afequate view of fianncial information and financial status of the firm.
3. Owners must have suffitient skills to interpret the financial statements to use these statements adequately.
4. The owners must be comfortable in suing fianncial statements thus, there is a need to expand interpretation skills for effective use.
5. The financial statements must be prepared adequately so the information is updated and reliable.

Future Research

Depend on the findings of the study and the results as well as recommendations. The future research can focus on questionnaire as well as interviews or focused groups to collect data to answer the research question. The decision making is influenced by many factors hence, future studies can take into such accounts as education level and revenues and main variables that may influenece the use of financial statemnts in decision making.

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APPENDICES

APPENDIX A

QUESTIONNAIRE

Section I

Personal Background

1. What is your title in the company?

_____ Majority Owner

_____ Principle Owner

_____ President

_____ General Company Officer

_____ Other (Title: ________________)

2. Are you (please check one)?

_________Male _______Female

3. _____ How old are you (in years)?

4. _____ How many years of relevant industry experience do you have in the industry In which your company is operating?

5. Which statement best describes the growth of your business? (please circle only one)

Shrinking Growing

Fast Stable Fast

1 2 3 4 5 6 7

6. Please indicate which of the following you have completed (please all that apply check)?

______ High School

______ Bachelor degree

______ Graduate degree

______ Other (Please indicate ______________)

7. Where did you learn about financial statements?

________ On-the-job training.

________ Self Taught

________ Earned College Degree or Certificate

________ Enrolled in Class(es)

________ None of the above

Section II

8. How is your business organized? (please check one)

______ Sole Proprietorship ______ Corporation

______ S–Corporation ______ Partnership

_____ Limited Liability Corp _____ Other (Please Specify _____)

9. _____ In what year was your current firm first organized as a legal entity?

10. What is the primary activity of your business? (please check one)

_____ Retail _____ Agricultural

_____ Services _____ Other (please specify)

_____ Manufacturing

11. what is size of your capital?

_____ <$ 5000 _____ $ 25,001 - $ 50000

_____ $ 5001 – $10,000 _____ >$ 50,000

_____ $10,001-$ 25,000

12. What is the current approximate size of your business total assets as shown on your most recent balance sheet? (please check one)

_____ $1-$10,000 _____ $50,001-$75,000

_____ $10,001-$25,000 _____ $75,001 - $100,000

_____ $25,001- $50,000 _____ > $100,000

13. What were your current approximate total revenues during the last calendar year?

_____ $1- $10,000 _____ $10,001 - $50,000

_____$50,000-$100,000 _____ > $100,000

14. How much do you know about how your company's profitability compares with your competitors? (please circle only one)

Nothing Moderate A Lot

1 2 3 4 5 6 7

Section III

Financial Statements

15. Currently, how often are your financial statements prepared (please check one per statement)?

	Monthly	Quarterly	Annually	Never
Income Statement	_____	_____	_____	_____
Balance Sheet	_____	_____	_____	_____
Cash Flow Statement	_____	_____	_____	_____

16. Currently, how often are the following financial forecasts prepared (please check

one per statement)?

	Monthly	Quarterly	Annually	Never
Sales Forecast	______	______	______	______
Expense Forecast	______	______	______	______

17. How confident are you in the accuracy of the financial statements that you receive?

((1=not confident and 7 = very confident)

Not Confident ... Confident

1 2 3 4 5 6 7

18. Please indicate how comfortable you are with your ability to interpret the following (1=not comfortable and 7 = very comfortable

	Not Comfortable						Very Comfortable
Income statement	1	2	3	4	5	6	7

Sales forecast 1 2 3 4 5 6

7

Expense forecast 1 2 3 4 5 6 7

Balance Sheet 1 2 3 4 5 6

7

Cash Flow Statement 1 2 3 4 5 6

7

19. Does your company use financial statements in decision making?

______ No → please go to Question 23

______ Yes → please answer Question 22a, 22b, and 22c

20. Are your financial statements used in decision making in each of the following areas?

	Yes	No
Assessing Capital Needs:	_____	______
Assessing Market Needs	_____	______
Forecasting Sales	_____	______
Expenses Controls	_____	______

21. Who has the primary responsibility in your organization for preparing financial statements (please check one)?

_____ Primarily within your organization

_____ Primarily outside your organization

22. Who do you go to for outside assistance (check all that apply)?

_____ Private Consultant

_____ SBDC

_____ SCORE

_____ (Other, please indicate ____________________________)

23. Please indicate how important the following are for your firm to effectively compete? (1= not important and 7=very important)

	Not Important					Very Important	
a. Expand products/services sold	1	2	3	4	5	6	7
b. Introduce new products	1	2	3	4	5	6	7
c. Open up new markets	1	2	3	4	5	6	7
d. Find new suppliers	1	2	3	4	5	6	7

e. Improve quality of existing products/services

1 2 3 4 5 6 7

f. Improve business process flexibility

1 2 3 4 5 6 7

g. Improve customer communication

1 2 3 4 5 6 7

h. Reduce cost of products/services sold

1 2 3 4 5 6 7

24. Does your company have a strategic plan (please check one)?

_____ Yes, and we used it → go to Question 27

_____ Yes, but we don't use it → go to Question 27

_____ No, we don't have one → go to Question 28

_____ I don't know → go to Question 28

Yes No

25(a). Does your company adjust budgets to achieve its strategic plan?

_____ _____

25(b). Does your company spend money to achieve its strategic plan?

_____ _____ Yes No

26. Do you use software to help with preparation of your financial records?

(please indicate who ______________________ Yes No

27. _____ How many new businesses have you started?

28. _____ How many of these businesses do you currently operate?

PLAGIARISM REPORT

THE ROLE OF FINANCIAL STATEMENTS IN EFFECTIVE INVESTMENT DECISION MAKING IN SMEs

SIHAD ANWAR

ORIGINALITY REPORT

12%	2%	7%	11%
SIMILARITY INDEX	INTERNET SOURCES	PUBLICATIONS	STUDENT PAPERS

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1	Submitted to University of Newcastle upon Tyne Student Paper	2%
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3	Shamim Akhtar, Yanping Liu. "SMEs' Use Of Financial Statements For Decision Making: Evidence From Pakistan", Journal of Applied Business Research (JABR), 2018 Publication	1%
4	feupedicoes.fe.up.pt Internet Source	1%
5	HOWARD VAN AUKEN, KUI YANG. "CHINESE SMEs' USES OF FINANCIAL STATEMENTS IN DECISION MAKING", Journal of Developmental Entrepreneurship, 2015 Publication	1%
6	Shawn Carraher, Howard Van Auken. "The use of financial statements for decision making by small firms", Journal of Small Business &	1%

ETHICS COMMITEE APPROVAL

Ethical Approval Form

YAKIN DOĞU ÜNİVERSİTESİ

BİLİMSEL ARAŞTIRMALAR ETİK KURULU

18.9.2019

Dear Sihad Hussein Anwar

Your application titled **“The Role of Financial Statements in Effective Invesment Decision Making in SMEs”** with the application number YDÜ/SB/2019/528 has been evaluated by the Scientific Research Ethics Committee and granted approval. You can start your research on the condition that you will abide by the information provided in your application form.

Assoc. Prof. Dr. Direnç Kanol

Rapporteur of the Scientific Research Ethics Committee

Direnç Kanol

Note: If you need to provide an official letter to an institution with the signature of the Head of NEU Scientific Research Ethics Committee, please apply to the secretariat of the ethics committee by showing this document.